RURAL ECONOMIC DEVELOPMENT

HEARINGS

BEFORE THE

SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

JUNE 6, 8, 13, 15, 20, 22, 27 AND 29, 1989

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[1] Resigned from Congress, June 15, 1989.

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RURAL ECONOMIC DEVELOPMENT

TUESDAY, JUNE 6, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION,
CREDIT, AND RURAL DEVELOPMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to call, at 11:25 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Tallon, Penny, Nagle, Harris, Espy, Long, and Coleman.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Joseph Muldoon, assistant counsel; Francie Monaghan, clerk; Bill Cherry, James R. Lyons, Joe Dugan, and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. ENGLISH. The hearing will come to order.

Today, the Subcommittee on Conservation, Credit, and Rural Development launches monthlong hearings on rural development. Following the hearings throughout the month of June, the subcommittee will hold field hearings in August. These hearings are essential to the development of a comprehensive rural development package which the subcommittee will draft for inclusion in the 1990 farm bill. All of us representing the rural areas are aware of the need for aid to rural communities, and the statistics, as numbing as they are, speak for themselves.

Between 1982 and 1986, over half of the nonmetro counties lost population, and 1 million people left rural areas for urban ones in 1986 and 1987. Rural unemployment rates are 31 percent higher, and rural per capita income averages 25 percent lower than in urban areas. Rural schools have far fewer resources and higher dropout rates than their urban and suburban counterparts, and the higher proportion of older residents in rural areas require greater expenditures per capita on health care.

In the late 1980's, to travel from a major metropolitan area to a rural region is to take a leap through time. The towns that dot huge stretches of our country too often suffer from the sort of benign neglect through which their foundations are silently being eroded. The basic elements of life in any community—capital investment, health care, transportation, education, and water—are for rural America rapidly becoming luxuries they cannot afford rather than necessities they can depend upon.

The challenges of rural development are immense, especially during a period of Federal fiscal restraint under which all Government programs are now operating. We in Congress cannot promise a glistening new factory or a new hospital for every rural community that wants one, but the task is made that much greater by the ramifications of a failure to address it.

There may be those who would not lament the passing of rural life in America, but if we neglected this unique part of the American heritage, we would not be able to escape the consequences which we as a legislative body would ultimately have to address. Unable to live where they want to, rural residents would continue to flock to our Nation's cities, placing greater demands on already limited resources and overextended infrastructures. It is therefore sound national policy to undertake efforts to breathe new life into our rural communities.

During the hearing process, the subcommittee will address all elements of rural development. We welcome the comments of our colleagues today as well as the proposals which organizations and individuals will present to us in the weeks ahead. From these hearings and those that will be held in the field in August, it is my intent that we develop legislation based on a consensus of subcommittee members. We accept the task before us and are eager to address the urgent needs of our fellow Americans who have chosen to call rural towns or villages their home.

Mr. Coleman.

OPENING STATEMENT OF HON. E. THOMAS COLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. COLEMAN. Mr. Chairman, thank you for holding these hearings. I can't think of a more important item that this subcommittee could address in the next month than the issue of rural development.

The farm problems that we have in this country don't stop at the farm gate; they exist in small communities throughout this country. I think it is extremely important for us to have a viable farm sector, and to do that we need a viable rural community sector, as well.

There is a symbiotic relationship between town and country. The farmers that sustain small towns have more opportunities for getting the best price for their goods and for the purchases that they make if the town is, in fact, strong and viable and competitive within that community. The community itself must have a strong and stable farm community for it to survive, and it is time for us to recognize in agriculture that traditional programs, or farm programs, per se, have not been sufficient to sustain the growth and the continuity of many of our small towns.

That is why I am so hopeful that this subcommittee and our full committee can either this year, or as a very strong plank in a farm bill next year, draft legislation which is going to reflect some nontraditional approaches. There are exciting ways to utilize high technology and bring it into rural America, to plug us into the mainstream economy of this country, and to educate our young people so that we have a next generation of future leaders in rural America. There is a role for the Federal Government to play in all this.

I will not be testifying today, but at a future time I would like to bring to the attention of the subcommittee a package of bills that I have introduced, which I have titled "Rural Development Initiative 1989," that builds upon some of our past successes and support over the last 2 years and provides, again, a nontraditional approach to solving rural community problems.

I again commend you. I look forward to these hearings and hope that we will be able to draft something that will encompass the area of rural development. I will work with you, and I hope all members of our committee will, in order to accomplish what is definitely a very big need.

Thank you, Mr. Chairman.

Mr. ENGLISH. Mr. Tallon.

OPENING STATEMENT OF HON. ROBIN TALLON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. TALLON. Mr. Chairman, thank you for holding this series of hearings on rural development. On behalf of South Carolina's rural communities, I am grateful for your recognition and commitment to revitalizing our rural economies.

I would like to ask unanimous consent to insert a more comprehensive statement into the record and summarize a point or two that I would like to make.

Mr. ENGLISH. Without objection, it is so ordered.

Mr. TALLON. All of us, Mr. Chairman, have heard many statistics illustrating the decline of rural communities, but one statistic transcends them all, the numbers of those that are no longer there.

In my district and in agricultural communities across the country, people are moving away, not because they want to, but because they can't find jobs that will allow them to build futures and families. It is not as if they want to live in Hollywood or Palm Beach; they want to live and work in the same small farming communities that they grew up in, the same small towns that make up what we call Main Street America, the same rural areas that politicians and the media tune into once every 4 years when Presidential candidates venture out into America. But for a growing number of people, life in these small towns is simply out of reach.

Our Government needs to recognize that this trend runs counter to our long-term national interests. After all, it is in the interests of the country to keep the population distributed and the economy balanced geographically, rather than allowing all the goods, services, people, and money, to gravitate to urban areas, as you mentioned earlier, Mr. Chairman. Certainly a better policy would be to enhance rural economies, promote cultural diversification, and with this policy I think it would be a good sound environmental policy also.

Next week, I will be introducing legislation that I believe will put rural communities back on a sure footing. My bill equips local organizations to serve as a catalyst and enables local banks to become more active participants in rural economic development, will improve the quality of community facilities, such as water, sewer, and telecommunications that support that economic activity, and it will strengthen educational, health, and business services that improve the skills of rural people.

The strength of this legislation, Mr. Chairman, is that it allows every organization that wants to participate in rebuilding rural America to do so. Equally important, our plan gets rural economic development down to the lowest common denominator, the local community. Like a stone thrown into the center of a pond, the ripples of economic development spread prosperity throughout an entire geographic area. Mr. Chairman, I commend you. It is time to go ahead and toss one of these stones in, and I look forward to working with you and members of the subcommittee in developing and promoting rural development legislation.

Thank you.

[The prepared statement of Mr. Tallon follows:]

PREPARED STATEMENT OF HON. ROBIN TALLON

Mr. Chairman, thank you for holding this series of hearings on rural development. On behalf of South Carolina's rural communities, I am grateful for your recognition and commitment to revitalizing our rural economies.

All of us have heard many statistics illustrating the decline of rural communities. But, one statistic transcends them all - the numbers of those that are no longer there. In my district, and in agricultural communities across the country, people are moving away not because they want to, but because they can't find jobs that will allow them to build futures and families. It's not as if they want to live in Hollywood or Palm Beach. They want to live and work in the same small, farming communities that they grew up in. The same small towns that make up what we call "Main Street America." The same rural areas that politics and the media tune into once every four years when Presidential candidates venture "out into America." But for a growing number of people, life in these small towns is simply out of reach.

Our government needs to recognize this trend runs counter to our long-term national interest. After all, it is in the interest of the government to keep the population distributed and the economy balanced geographically, rather than allowing all the goods, services people and money to gravitate to metropolitan areas.

Next week I will be introducing legislation that I believe will help put rural economies back on a sure footing. My bill equips local organizations to serve as catalysts and enables local banks to become more active participants in rural economic development. It will help improve the quality of community facilities - such as water, sewer, and telecomunications that support economic activity. And it will strengthen educational, health and business services that improve the skills of rural people.

A similar measure has been introduced as part of Senator Leahy's Rural Partnerships Package. The strength of this legislation is that it allows every organization that wants to participate in rebuilding rural America to do so. Equally important, our plan gets rural economic development down to the lowest common denominator - the local community.

While everyone has their own recipe for rural development, a basic common ingredient is capital. Small businesses in rural communities traditionally have had difficulty securing adequate capital to get their ideas off the ground. The challenge is as much one of changing the focus of existing programs as it is of creating new ones.

For example, there are already federal loan guarantee programs. But most of these target large businesses with lower relative transaction costs when smaller businesses are rural America's brightest hope.

Despite their collective impact, small enterprises are rarely the focus of public and private resources. They are frequently left with inadequate access to credit, information and appropriate technical expertise.

While the government is selling rural economies short on one hand, traditional bank financing has failed to deliver on the other. In most parts of the country, the rural banking system is flush with loanable funds. Yet these banks find that the risks of lending to small and start-up businesses are too great in light of the safety and soundness requirements of the regulatory agencies. Because of these regulatory restrictions, banks have limited flexibility in offering entrepreneurs appropriate mixes of risk or debt capital.

Rural communities, in conjunction with the private sector and public support can break down some of these barriers to rural debt, risk and mixed capital. My bill would set up a system in which small businesses could apply for a package of funds: risk capital from a cooperative non-profit and a conventional loan from a local participating bank.

Under such a program, a federal rural capital partnership fund would provide grants to cooperative and non-profits serving rural communities. The co-op or non-profit would in turn recruit banks and other private financial institutions to commit to the project. The co-op would then buy into the business with risk capital while the bank complemented that amount with a standard loan.

The small businesses applying for the funds would submit a workplan including intended use of funds, up front financial commitments from the applicant and from local lending institutions with a three to one minimum match. In survey after survey, rural businesses have said they were looking for the right dollars at the right interest rate and that reduced interest rates were often as useful as outright grants. It's time they got it.

The second requirement is probably the most critical - water and sewer assistance. A community can have all the technical expertise, leadership and potential in the world but without an adequate water and sewer system in place it's going nowhere. A quality sewer and water system is the first thing a company looks for in relocation and it's a community's first demonstration that you are ready, willing and able to meet that company's future needs. It's the first test and for far too many communities in my State and District it becomes the last one. My bill would expand the number of water and sewer loans available through local organizations. Water and sewer lines are what it takes to move a community from rural to rural developed.

Finally, the bill recognizes the importance of re-enforcing human capital in rural communities by using enhanced telecommunications to improve the quality of rural education and health care.

There's a phenomenon referred to as the economic multiplier. It gauges how many times a dollar changes hands and the total financial impact of one dollar spent. If a person spends a new dollar in the community, and each person that receives it does the same, with about 10 cents off for profit, savings and other needs, the multiplier is 10 times. That means that one new dollar in a community generates about 10 dollars in business activity. And that 10 dollars is in turn multiplied throughout every surrounding community.

Like a stone thrown into the center of a pond, the ripples of economic development spread prosperity throughout an entire geographic area. Let's go ahead and toss one in!

Mr. **English**. Thank you, Mr. Tallon.

Mr. Nagle.

Mr. **Nagle**. I have no statement, Mr. Chairman.

Mr. **English**. Thank you. Without objection, any other prepared statements received from our members will appear in the record at this point.

[The prepared statements of Mr. Espy and Mr. Combest follow:]

June 6, 1989

OPENING STATEMENT BY CONGRESSMAN MIKE ESPY BEFORE THE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

MR. CHAIRMAN, I WANT TO COMMEND YOU AND YOUR STAFF FOR HOLDING THIS HEARING; THE FIRST OF A MONTH LONG SERIES OF HEARINGS ON RURAL DEVELOPMENT. THERE ARE MANY STATISTICS AND EXAMPLES ON THE PROBLEMS THAT FACE RURAL AMERICA TODAY, AND UNDER YOUR LEADERSHIP, TODAY WE START LOOKING AND LISTENING TO THESE PROBLEMS.

IN A RECENT REPORT BY THE CENTER ON BUDGET AND POLICY PRIORITIES WHICH EXAMINED CENSUS BUREAU DATA IN RURAL AMERICA. 16.9 PERCENT OF THE POPULATION LIVING IN RURAL AREAS HAVE INCOMES BELOW THE POVERTY LEVEL, COMPARED WITH 12.5 PERCENT IN URBAN AREAS. AN ESTIMATED 25 PERCENT OF THE POPULATION OF MISSISSIPPI, OR 656,000 PEOPLE, LIVED IN POVERTY IN 1985. THIS WAS THE HIGHEST POVERTY RATE OF ALL STATES IN THE NATION. IN MY DISTRICT, THE SECOND CONGRESSIONAL DISTRICT, 43 PERCENT OF THE PEOPLE LIVE BELOW THE POVERTY LEVEL. ALMOST A THIRD MAKE LESS THAN $5,000 A YEAR.

WHILE POVERTY IS OFTEN THOUGHT OF AS AN URBAN PROBLEM, IT IS GROWING AT A FASTER RATE IN RURAL AMERICA THAN IN THE NATION'S INNER CITIES. FEW PLACES IN THE COUNTRY ARE MORE DEPRESSED OR LESS DEVELOPED THAT THE SEVEN-STATE REGION OF THE LOWER MISSISSIPPI RIVER VALLEY, WHICH RANKS AT OR NEAR THE BOTTOM IN PRACTICALLY EVERY SOCIAL AND ECONOMIC INDICATOR.

CONCERN FOR THIS REGION OF THE COUNTRY PROMPTED ME, AS WELL

AS MY COLLEAGUE FROM MISSISSIPPI, CHAIRMAN JAMIE WHITTEN, TO INTRODUCE THE LOWER MISSISSIPPI DELTA DEVELOPMENT ACT, WHICH WAS ENACTED INTO LAW BY CONGRESS LAST YEAR AS PART OF THE RURAL DEVELOPMENT AND AGRICULTURE APPROPRIATIONS BILL. THE MEASURE CREATED A NINE-MEMBER COMMISSION ASSIGNED TO AN 18-MONTH STUDY OF CONDITIONS IN THE REGION; WHICH INCLUDES PARTS OF MISSISSIPPI, ARKANSAS, LOUISIANA, ILLINOIS, KENTUCKY, MISSOURI, AND TENNESSEE. THE COMMISSION WILL PRESENT ITS FINDINGS AND RECOMMENDATIONS TO THE CONGRESS, THE PRESIDENT, AND THE GOVERNORS OF THE CONCERNED STATES ROUGHLY ONE YEAR FROM NOW. I INTEND TO WORK TO ENSURE THAT THE CONGRESS AND THE PRESIDENT INCLUDE THE COMMISSION'S REPORT IN RURAL DEVELOPMENT LEGISLATION.

MR. CHAIRMAN, NOT ALL OF RURAL AMERICA IS IMPOVERISHED AND RAVAGED BY THE SYMPTOMS OF ECOMONIC DEPRESSION. WE HAVE THE NATURAL GIFTS AND RESOURCES THAT CAN BE TAPPED AND DEVELOPED. WE HAVE PEOPLE WHO ARE WILLING TO WORK, WE HAVE YOUNG MINDS SEEKING MORE KNOWLEDGE, AND WE HAVE THE GOOD EARTH, PLENTY OF WATER AND ENERGY TO DRIVE THE REDEVELOPMENT OF OUR RURAL COMMUNITIES. I BELIEVE WE CAN GAIN NEW INSIGHT AND DIRECTION FROM THE WORK OF THE DELTA DEVELOPMENT COMMISSION, BUT I FERVENTLY BELIEVE IT IS CONGRESS WHO MUST LEAD WITH A CLEAR DIRECTION AND COHERENT POLICY.

IN CLOSING MR. CHAIRMAN, I WOULD LIKE TO SAY THAT THERE ARE MANY OTHER AREAS WHICH NEED TO BE ADDRESSED ON RURAL AMERICA. HOWEVER, CONGRESS MUST FIRST BEGIN TO UNDERSTAND THAT A CHAIN CAN ONLY BE AS STRONG AS ITS WEAKEST LINK. FOR AMERICA TO PROSPER AND THRIVE, RURAL AMERICA CANNOT BE SACRIFICED.

Larry Combest

STATEMENT BY CONGRESSMAN LARRY COMBEST

JUNE 6, 1989

MR. CHAIRMAN, FIRST I WOULD LIKE TO THANK YOU FOR HOLDING THIS SERIES OF HEARINGS ON ONE OF THE MOST PRESSING ISSUES FACING SMALL TOWNS AND COMMUNITIES, ECONOMIC DEVELOPMENT. I BELIEVE THE 101st CONGRESS HOLDS THE GREATEST OPPORTUNITY FOR SOME TYPE OF RURAL DEVELOPMENT LEGISLATION TO BECOME LAW.

I WELCOME MY COLLEAGUES WHO DO NOT SERVE ON THE HOUSE AGRICULTURE COMMITTEE, AND LOOK FORWARD TO THEIR TESTIMONY AND SUPPORT AS WE BEGAN TO FORMULATE LEGISLATION ON THIS VITAL MATTER. IN ADDITION, I WANT TO WELCOME OUR AGRICULTURE COMMITTEE COLLEAGUES AND I LOOK FORWARD TO WORKING CLOSELY WITH YOU AS WELL.

WHETHER WE REPORT A SEPARATE BILL OUT OF COMMITTEE, OR WE BROADEN THE NEXT FARM BILL WITH A WIDE RANGING RURAL DEVELOPMENT TITLE, THE MOST IMPORTANT THING IS THAT WE GET SOMETHING DONE. IF WE DO NOT SUCCEED AT THIS ENDEAVOR, RURAL AMERICA WILL SIMPLY BLOW AWAY AS FAMILIES MOVE ON TO NEW HORIZONS IN ORDER TO SURVIVE.

HOWEVER, I AM OPTIMISTIC THAT WE WILL SUCCEED, AND THAT PRECIOUS LIFE THAT RURAL AREAS CONTAIN WILL LIVE ON FOR MANY YEARS TO COME. ONCE AGAIN, THANK YOU MR. CHAIRMAN, AND THANKS TO OUR HONORABLE PANEL OF WITNESSES FOR THEIR PARTICIPATION ON THIS ISSUE.

Mr. **English**. Our first witness today, in what will be a number of our colleagues who will be bringing suggestions and ideas to us, leading off the testimony for this month, is Mike Synar. Mike is the cochairman of the Rural Health Coalition. He is also chairman of the Government Operations Subcommittee on Environment, Energy, and Natural Resources. There is no question that Mike is recognized as one of the leading experts with regard to rural development.

Mike, we are looking forward to your testimony.

STATEMENT OF HON. MIKE SYNAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. **Synar**. Thank you, Mr. Chairman, and thank you, Glenn, very much for that.

I would ask unanimous consent to revise and extend my remarks, obviously.

Imagine, if you could, a company town after a company goes bankrupt, where there are no jobs, and no money, and no reason to stick around. The young families go to the new towns, where the new jobs are, sapping much of the economic and human potential of that community.

In rural America, where 25 percent of our citizens live, the economic failure of a local hospital or clinic or the departure of the local doctor can create the same human isolation and economic deterioration facing that bankrupt company town.

When we lose our hospitals, we lose not only access to acute care, but nursing care, and home health care, and physicians' care, and jobs, and, frankly, the ability to attract new businesses and industries to our communities. Affordable, accessible health care is vital—and I think all of you who serve on the Agriculture Committee know that—to keeping rural communities healthy both physically and fiscally. Presently, however, the vital signs are not good.

We have lost 160 rural hospitals since 1980, and more than 600 are presently in danger. Nearly two-thirds of all rural hospitals in our country are operating in the red, and nationally we have a shortage of 1,800 rural primary care providers, and as many as 25 percent of the rural physicians may retire or leave their communities within the next 5 years; and, finally, rural areas account for 73 percent of the health manpower shortage areas, with a ratio of 3,500 people for each primary care doctor.

Now what is causing that? Well, there are several factors. First of all, there is the shrinking population, which Robin alluded to. There are recent economic problems, which Tom alluded to. There are higher concentrations of uninsured and poor people in those areas.

But probably of most significance is the fact that the Federal Government's Medicare reimbursement policies discriminate against rural areas. On average, payments received by rural hospitals are 30 percent smaller than payments received by urban hospitals for providing the same medical service. Rural doctors receive 40 percent smaller payments, on average.

This inequity is compounded by the fact that Medicare revenue is more important to those rural hospitals and doctors. While the elderly in our society represent about 12 percent of the general population in the United States, they account for more than 25 percent in the rural areas. Therefore, a larger portion of the patients served by rural facilities are covered by Medicare.

Many of you who sit on this panel serve on this bipartisan committee that Tom Tauke and I, in cooperation, have created on rural health care. Over the years that it has been established, we have had great success in putting initiatives into virtually every piece of health care legislation that has moved through Congress.

As you begin the discussion of rural economic development and what we can do as Members of Congress, and particularly as Members who are from those areas, I hope you won't forget the importance of rural health care—doctors, nurses, and hospitals. We intend to work closely with you on this effort.

Earlier this year, we introduced a package of legislation. None of the bills has been referred to the Agriculture Committee, but your interest is important and timely. Attacking the problems in rural areas, whether it be in health care or economic development or housing, will take coordinated efforts, and we stand ready to work with you.

[The prepared statement of Mr. Synar appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Mike, for a fine statement. You are absolutely right. I think that certainly the issue of rural development goes beyond the jurisdiction of this particular subcommittee, and I think it is particularly appropriate that, in leading off, we point that out. Rural health care plays a very important role in the existence of any community. It is hard to understand these days how people can live in a community that does not have decent health care.

So it is critical for the future of any rural community, it is critical as far as rural development is concerned, and we wanted to provide a forum during these hearings to touch on not only what is within the jurisdiction of this committee but also what may play a very important role as far as rural development is concerned; we want to encourage and work with our sister committees in making sure that we complete the package. I think that is really what we are looking at. We have to present a package to deal with these problems, and not all those problems can be solved in this committee. We are going to do our share, and hopefully we can encourage our sister committees.

I want to thank you for a fine statement.

Mr. **Synar**. Glenn, thank you, and you are to be commended for finally putting all the various agencies and committees together to try to do this, because it is going to take a comprehensive effort, and I think you are the right person for it.

Mr. **English**. Thank you very much.

Mr. Coleman.

Mr. **Coleman**. Just to amplify what you said, I believe that if we were to have a policy in the House of establishing rural development as a priority for this year, that we could bring together the various committees through the Speaker, the Majority Leader, and whomever, to be able to get around jurisdictional turf battles and concerns that are out there and which we have seen in the past.

I believe the other body has made such a compact, and they are going to be undoubtedly moving some legislation sooner than we are as a result of that. Their rules are different than ours, but I think that all of us—I think Mr. Synar's statement about the fact that his bills that the coalition has introduced aren't before us shows exactly why we ought to do this.

Not only do we need to go beyond the traditional agricultural programs, we need to expand and take off the blinders here as to the committee structure so that we are not confined in putting together this package.

So I would just suggest kind of out loud, to the chairman and everybody, if we could somehow establish this as a priority within the leadership, it might smooth our way in assuring that we do this on a package basis. We must do more than just limit our ideas to areas of common jurisdiction that we might have. I would support that, because I think the statement points it up.

One thing we did in our package, Mike, was to provide the Farmers Home Administration some leeway in providing lower interest rates to construction of rural hospitals, a little thing that we could retain jurisdiction over within our committee and make it work. So that is something that we have addressed as well.

Everybody says, "Well, you haven't dealt with rural health," and of course the response is that it is not our committee's assignment to deal with rural health, per se, but we have got to get over this jurisdictional issue and try to reach it.

Thank you for your statement.

Mr. SYNAR. Tom, as you point out, most of the members on your subcommittee and the Committee on Agriculture serve on the Rural Health Care Coalition, which is a great plus as we try to work our way through this maze that is going to be necessary.

Mr. COLEMAN. Thank you.

Mr. ENGLISH. Mr. Tallon.

Mr. TALLON. Mr. Chairman, I just want to thank Mike for his testimony and his great leadership on the Rural Health Care Coalition and the things that he is doing, the legislative package, and I look forward to working with him in the future.

Thank you very much.

Mr. SYNAR. Thank you.

Mr. ENGLISH. Mr. Nagle.

Mr. NAGLE. I thank the gentleman for an excellent statement.

Mr. ENGLISH. Thank you very much, Mike. It was an outstanding statement.

Our next witness is one of our colleagues here from the House Agriculture Committee, a man who is recognized, I think, not only in the Congress but outside of the Congress, for his expertise with regard to budget matters and one that we look to on the House Agriculture Committee for his leadership. Tim Penny is one who is also recognized as an expert as far as rural development is concerned.

Tim, we would be happy to have your testimony.

STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. Thank you, Mr. Chairman. I appreciate your holding this hearing and for giving me an opportunity to testify.

There is no doubt among any of us on the Agriculture Committee that there are needs and potentials that are not being met in rural America today. How we respond brings forth an abundance of ideas and proposals and often conflicting advice. At the outset, this hearing process should review both what is needed and what is now being done for economic and human development in our rural areas.

In spite of the many differences that can be found among rural areas across the United States, I think that two main themes will emerge from these hearings: first, that our rural areas suffer from a lack of capital for small- and medium-sized business development; and, second, that our rural infrastructure is crumbling beneath us.

I think this subcommittee must look at how to get the "most bang for the buck" in rural development programs to address these problems. To me that means utilizing existing cooperatives, businesses, and development organizations in the most efficient ways possible.

To increase investment in infrastructure maintenance and telecommunications modernization, for example, we should be looking at the Rural Electric Administration as an existing institution with hundreds of associated rural electric cooperatives that could be more involved in these activities. Grass roots organizations like rural electric cooperatives know the needs of their communities and are best situated to carry out local development projects.

I think, as well, that if we want to maintain a rural community tax base and to keep people in rural areas, we have to be able to present to them opportunities for new jobs, and new jobs require business financing. The question is, How can the public and private sectors make affordable capital available to small communities?

Limited public capital can be used to leverage private capital, and the Federal Government providing incentives such as loan guarantees or revolving loan funds can reduce the risk of rural development investment.

Economic diversification should include agricultural diversification. We should be providing our agricultural producers incentives to produce new crops, including so-called industrial crops, as well as assisting businesses to invest in the commercialization of new products from our agricultural commodities.

For example, Senator Conrad of North Dakota and I have reintroduced legislation that would create an Agricultural Research Commercialization Cooperation within the U.S. Department of Agriculture. As you will recall, this legislation was added to the research bill which we approved in this committee last year and which was passed by the House of Representatives.

ARCC would provide targeted financial assistance for the commercialization of selected new products through repayable grants and loan guarantees. Priority would be given to commercialization proposals which include financial support from State and local governments and private industry.

I feel that the establishment of a partnership between the private and public sectors to develop and commercialize new agricultural products will ensure that Federal dollars spent on agriculture research will yield the highest return for America's economy. In addition, new products will give farmers additional markets for their crops and strengthen their financial situation.

I believe ARCC is just one example of the ways in which the private and public sectors can cooperate to create new jobs and stimulate economic activity in small communities by bringing small- and medium-sized businesses back into rural areas. I look forward to the ideas for rural development that will be presented here during the course of your hearings. I expect the subcommittee will have ample material to work with as we put together a rural development package this year, and I am confident that we will see many of these ideas brought into practice in the coming years.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Penny appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Tim. I appreciate that.

I know that virtually every rural community in my district—and I think the same is true in most rural communities around the country—is desperate for jobs. I think you put your finger on it. That has got to be a key important role to the continued future of any community. But there are only so many small industries that are going to be either able to, or willing to, locate in rural communities.

One area that seems to be constantly overlooked by many of the rural communities is the question of a homegrown industry, so-called cottage industries. Local people often have good ideas about developing a small industry that is going to generate some jobs around town and provide some stability.

I guess the real question is, one of the desperate needs that those people have, is financing: How do they get adequate financing? I suppose that nothing would get a banker in trouble more quickly than to try to invest in some kind of venture capital for some small, local industry that is starting up in the local community.

Do you think there is some way that we can provide, given the shortages we have from a budget standpoint, some assistance in the way of venture capital?

Mr. PENNY. I think there are two ways we can do it. Through ARCC, we could offer loan guarantees which would provide more of an incentive to local lending institutions to get involved with new industries. The real value of ARCC is that we would only be making investments in those industries that would take agricultural products and find new commercial uses for them.

So it is really focused only on the rural communities—in other words, processing those farm commodities close to home and finding some alternate use for those products and putting them on the market.

So we are not talking about a broad-brushed SBA kind of program where any kind of loan idea by a local entrepreneur can be financed. We are strictly focusing on something that will add to the profitability of the farmers in that area by giving them a processing facility for their commodities close to home, and we are providing an incentive to local lenders to get involved financially by getting the Government involved in some type of loan guarantee activity.

The other opportunity that I think is available to us is to give the rural electric cooperatives and other rural cooperatives more legislative authority to get involved in capital formation. I really think that they are best attuned to dealing with these rural development issues, and with some additional legislative authority they can go out and secure that kind of financing, and probably they can do something in terms of a secondary market to enhance that ability to make loans available in rural areas, and we can just kind of turn over to them a good deal of this rural business development activity. That doesn't involve any direct outlays of Federal dollars, it just involves a change in the authority for these cooperatives to involve themselves in rural development. Instead of simply telephone cooperatives or electric cooperatives, they can become general economic development cooperatives.

Mr. **English**. Mr. Coleman.

Mr. **Coleman**. Tim, thank you for your statement.

I, too, think there is a role for the rural co-ops to play. I'm not sure that we want to turn it over to them to handle, but I think there is a very legitimate role. In many of our small communities, they represent the expertise and the technology that exist in that small community. If we can build upon the foundation that they already have there in the communications systems and networks, that can go far in trying to bring about this change of utilization of technology that we all know needs to be done. It is good for them. It is good, obviously, for their business, so there is a self-interest, and there is an interest for us because they already have a system in place.

So I agree with you on that. We need to work with that, but I think it has to be within some limitations so that we recognize that they are just part of a component of a general approach that we need to make.

Thank you.

Mr. **Penny**. Thank you.

Mr. **English**. Mr. Tallon.

Mr. **Tallon**. Thank you, Mr. Chairman.

Tim, I appreciate your statement. One thing that I found in my area in South Carolina, they are very interested in the possibility of involving co-ops more in rural development with a public-private partnership, possibly with local small banks.

But the people with ideas the people wanting to start a business, they don't need the $200,000 or $250,000 SBA loan. They can't begin to afford the kind of paperwork, accounting and legal fees that accompany this kind of application. In many cases, it is $10,000, or $15,000, or $20,000 that would help start a small business. I know even in my own case at 19 years old, it was $8,000 that I desperately needed to start a business. I finally was able to borrow it from friends and family and ultimately employed over 200 people.

I just think that what I am hearing you say, is that this is an approach we need to look at. SBA very often is for somebody who is already in business and wants to expand, but it is very hard sometimes for the small amount of capital that somebody needs that really has a good idea, an entrepreneurial spirit, and really willing to put that sweat equity into the venture, to come up with that initial capital.

Thank you.

Mr. **English**. Mr. Nagle.

Mr. **Nagle**. No, thank you, Mr. Chairman.

Mr. **English**. Thank you very much, Tim. We appreciate your testimony. It was outstanding. Thanks a lot.

Mr. **Penny**. Thank you, Mr. Chairman.

Mr. **English**. Our next witness is the chairman of the Wheat, Soybeans, and Feed Grains Subcommittee, Dan Glickman.

Let me say that Dan, as well as being a member of the Agriculture Committee and chairman of the subcommittee, is recognized as being one of our outstanding experts with regard to rural development.

STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. **Glickman**. Thank you, Mr. Chairman, Mr. Coleman, and members of the committee. I am delighted to testify before this subcommittee. My only regret is, I am not a member of this subcommittee.

I would say that there are a lot of excellent ideas floating around. I would particularly reference Tom Coleman's package of ideas, many of which I think could go a long way to addressing some of our problems in rural America.

I have an idea which I would like to present to you today, which is somewhat controversial but I think deals with the big picture, which is, how do you get money into rural America? How do you get dollars when the marketplace flows to those things which produce profits, produce increases in value of assets, into rural America, and do it in a way that doesn't do it like we have done in the past, which is kind of a hodgepodge way to increase the funding of Farmers Home a little bit, and increase the funding of SBA a little bit, but doesn't really affect the marketplace for dollars very much.

So what I am going to propose today is, that we create a national rural development bank to focus and lead efforts of the Federal Government to provide financing in rural America. This entity will centralize and bring together the many existing financing and lending programs of the Federal Government and will establish a new priority of lending for rural infrastructure needs.

Today, when it looks to Washington for assistance, rural America must sort through a maze of different Federal programs administered by as many different Federal entities. SBA, REA, EDA, HUD, and, of course, Farmers Home all have a role. Unfortunately, not only does this panoply of Federal entities cause confusion and complexity, the different agencies often have their own agendas which may frequently conflict with one another. While all of them share some responsibility for rural-related activities, none of them is given a primary responsibility for overall financing of rural growth opportunities, and efforts to just increase funding in each one of these different activities don't necessarily advance the goal of providing dollars into rural America.

A new rural development bank encompassing these programs, operating within the Farm Credit System, will bring focus and purpose to the structure. As part of the Federal Farm Credit System, which has decades of experience in meeting the financing needs of rural citizens, this new entity can provide long-term economic assistance to the investments upon which the private sector can build.

I believe we should authorize the Farm Credit System to lend to State and other local units of government for local economic development projects. In this manner, I believe the Federal Government will be able to maintain maximum leverage for a minor commitment of resources in promoting growth.

Eligible projects should include such things as water and sewer systems, maintenance and improvement of industrial parks, hospitals, and the maintenance of vital public utilities and transportation systems.

I am convinced that unless business can be assured that the infrastructure upon which their operations depend will be maintained and upgraded they will either leave rural areas or refuse to locate in rural areas. With falling levels of direct Federal grants for such projects and the gradual elimination and diminution of such financing methods as tax-exempt industrial development bonds, the long-term financing needed in rural America is in jeopardy.

We have a reservoir of expertise in lending to rural America presently. However, it is diffused across the Government and, in the case of the Farm Credit System, is restrained from lending for such projects by statute. We can correct these deficiencies. We can centralize and focus our efforts. We can create new financing mechanisms through this proposal, and we can marry the best of the private sector expertise and long-term commitment by the Federal Government to provide a stable source of financing to the projects needed to ensure growth into the next century in rural America.

Let me just say again, somehow we have got to get the market to work. How are we going to get the market to invest in rural America? How are we going to get the banking system to agree that developing sewer projects or hospitals in rural America is good economics? Because unless we get that done, all the hodgepodge isn't going to work at all. It just seems to me we will be continually worried about a little tiny appropriation in this agency, or this agency, or this agency, and not look at the big picture.

It just struck me, here we have the Farm Credit System, they can go into the money markets, they have at least the implied backing of the Federal Government of the United States, but under current law they are barred from basically lending for rural development projects, with some exceptions. One of those is the bank for cooperatives, which, through REA's, has been lending for some rural development projects.

But here you have basically a rural bank, the Farm Credit System of America, and I realize they have had problems in the past, and I am not here to tell you exactly how you set it up, because we will have to work on that. But it seems to me we have got to deal fundamentally with the structure of how we get money, how we get the marketplace to invest some dollars in rural America, and using a national rural bank like the Farm Credit System with its access to money in the money markets. With its ability to leverage with State and local governments, with the private sector, we might actually be able to get some real dollars out there. I think that is what we have been missing to date.

So I just present this idea as one among many that you may want to consider as you begin working on a rural development project. It is not meant to be exclusive of others, it is just one that I think may provide a source of dollars, big dollars, into rural America, and that is what we need right now.

Thank you very much.

[The prepared statement of Mr. Glickman appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Dan. I think it is an excellent point.

As I understand it, your particular proposal, from a budget standpoint, would not have any impact, since these would not be dollars coming out of the Federal Treasury. Is that correct?

Mr. GLICKMAN. That is correct.

Mr. ENGLISH. So this would be something basically adjusting the legislation that we have in existence today to direct some of the efforts that have been taking place within the jurisdiction of the Agriculture Committee and the Department of Agriculture or through the Farm Credit System and redirect those resources. Is that correct?

Mr. GLICKMAN. And, in the process, perhaps refocusing the Farm Credit System as basically a national rural bank, calling it that. But the main thrust is giving them the statutory authority to use the immense amount of money that they are able to raise out there in the money markets to do this kind of thing.

Mr. ENGLISH. Mr. Coleman.

Mr. COLEMAN. Dan, thank you for your statement. You have raised several significant issues, not just the funding issue, which is of course the real concern all of us have—how are we going to help fund these ideas?—but also the fact that administratively, currently, the Federal Government has a hodgepodge, as you point out, a maze that you have to go through to secure assistance.

A year and a half ago, I asked the General Accounting Office to study this maze and to report back to me. In a report GAO made in January, they identified—first of all, let me say that the information is not even available for them to try to sift through because it just doesn't exist—but they identified 88 various programs that impact rural America spread over 16 different agencies and departments, the left hand/right hand not knowing what is going on.

That is one of the things we need to do first, to try to structure an umbrella agency, which I foresee in the USDA, to bring about this type of rational approach to rural development and rural affairs and to make it the advocate, if you will, within the Federal bureaucracy for rural areas. Then, to add to that, of course, the funding mechanism you and others may have come up with that we can bring in to help fund these programs. I think it is very important.

I thank you for pointing out that right now we have all over the map here in Washington, programs that impact rural America, but they are not coordinated. There is no real coming together of policy, and it is just scattered all over the map. I thank you for raising that issue. It is very important that we address that, and I hope that we can do that through my legislation. Again, thank you for your comments. I believe we can address these issues and bring about a more positive administration of these programs.

Mr. ENGLISH. Thank you.

Mr. Tallon.

Mr. TALLON. Thank you, Mr. Chairman.

Dan, I am very interested in your statement when you talk about the funding that is desperately needed in rural America and you talk about removing restrictions so the Farm Credit System could get involved in some of these types of projects.

Have you given any thought to what you would define? What areas would they be restricted from operating in or what you define as rural America?

Mr. GLICKMAN. I haven't yet. Again, using the bank for cooperatives as a model, they have at least got an opinion from the Farm Credit Administration, and they can lend for some industrial development type of projects and not others.

This is not an easy thing to define, because you would want to ensure that you were dealing with truly rural development type projects, and you would also want to make sure that you would not lose local control over the farm credit type of operation.

But I guess my concern is that there will be no other way to get a lot of dollars out in rural America without going somewhere down this road. I think Mr. Penny mentioned the REA's. Well, the REA's basically get a lot of their financing money through the Farm Credit Administration, and they are doing some of this right now through cooperative lending authority.

So I wish Wall Street would just invest on their own in rural America or you would get the Nation's big financial institutions to do it, because that is where the dollars are, but I don't think they will without some sustained, continuing Federal involvement and having a lot of market-system orientation to it. We will have to define it in some interesting way, but I just think unless we go down this road we will have this problem 10 years from now.

Mr. TALLON. I think you are right. One of the great challenges we are going to have is, if we move toward this type of removing restrictions from the Farm Credit System, we have got to define where they can operate in without coming in conflict with commercial banks and maybe some of the Farmers Home Administration, the housing you can't get into. These standard metropolitan statistical areas and things with some of those programs might be a model to look at.

Mr. GLICKMAN. Let me mention this. The problem is, you can't even get the private banking system to agree to leverage investments in some of these areas where there are not very many people living in them even to build a rural hospital or to combine some school districts or to do something along these lines. That is where the Farm Credit System can serve as kind of a core for leveraging these dollars from the local banking system.

I am sure the local banks may not be particularly thrilled about where this idea is going, but I think if they thought about it they may be able to actually help their institutions participate in rural development projects.

Mr. TALLON. I think it could be a complement to some of the local banks, especially in rural areas, and it is an interesting concept.

Thank you.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

Have you given any thought to phasing out existing Government programs in these infrastructure projects and replacing it with this kind of financing approach? There are two separate routes that the communities can go; they can go to Farmers Home, or they can go to the Farm Credit System. It seems to me that if we are going to send them to two separate places for financing the same kind of project, that may not be the best way for us to proceed.

Mr. GLICKMAN. I haven't really thought about it, but it struck me that the Farmers Home Administration has taken on a smaller, and smaller, and smaller role as we have reduced their funding, so they are really not doing very much.

Mr. PENNY. Frankly, I don't have a problem, just in my own opinion, phasing out that responsibility at Farmers Home and turning it over to the Farm Credit. I think Mr. Tallon is right that we have got to be clear about how we define all of this. But it seems to me that the Farm Credit System, in terms of its lending expertise, has a lot more talent and ability to handle this kind of investment than we have at Farmers Home anyway.

But I do think that when we are looking at limited resources, maybe one way to move in this direction is to shed some of the stuff that we have already got in place in other departments and agencies and turn that responsibility over to this new authority with Farm Credit.

Again, I guess we have got a lot of work to do here, but it seems to me that that coordination and maybe shedding some of the old as we try to address these issues in a new way is the right approach.

Thank you.

Mr. ENGLISH. Mr. Nagle.

Mr. NAGLE. No questions, Mr. Chairman.

Mr. ENGLISH. Mr. Harris.

Mr. HARRIS. Mr. Chairman, I have no questions, but I do have a prepared statement, and I would ask unanimous consent to have it included in the record.

Mr. ENGLISH. Without objection.

Mr. HARRIS. Thank you.

[The prepared statement of Mr. Harris follows:]

OPENING STATEMENT OF HON. CLAUDE HARRIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA

Good Morning. Mr. Chairman, this morning we begin the first step down the legislative road of reviving rural America and restructuring the Federal Government's rural development strategy. Rural America has consistently been shortchanged in recent years for a variety of reasons, from being overlooked by the previous administration's economic recovery to a lack of congressional will during the current high season in Congress.

I would like to welcome our expert witnesses to the Hill, and I must say that as we begin the process, there are three basic realities that we cannot escape, they are;

1. We must approach this subject with knowledge about the rural America of today, not the rural America of 20 or 30 years ago. Much has changed in demographics since then.

2. Second, budget constraints force all of us, legislators, strategist, and executive agencies alike, to temper our proposals with fiscal conservancy.

3. Finally, whatever the fruit of our efforts, in the form of new legislation, this new title to the 1990 farm bill must work. There is simply too much at stake in the countryside, to allow our bill to be ineffective.

To that end, let me congratulate you in advance, Mr. Chairman for being open minded on the question of "who really has 'rural development strategy'." Not all knowledge comes out of "think tanks" and there is much to be learned by consulting the residents and occupants of rural America. After all, it is their lives that we seek to affect through legislation.

Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you.

Mr. GLICKMAN. Thank you, Mr. Chairman, very much.

Mr. ENGLISH. We appreciate it.

Our next witness will be our friend and colleague from the House Agriculture Committee, Charles Hatcher, who is the chairman of the Agriculture Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition.

Charlie, we want to welcome you here today, and certainly your expertise in the area of rural development is well recognized within this committee and outside of it, too. So we appreciate your coming and appreciate your testimony.

Please proceed.

STATEMENT OF HON. CHARLES HATCHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Mr. HATCHER. Thank you, Mr. Chairman.

I appreciate the opportunity to be here today. I appreciate your holding the hearing and would like to have my entire statement submitted for the record.

Mr. ENGLISH. Without objection, it is so ordered.

Mr. HATCHER. I represent a small rural district, small towns, and very rural communities, down in south Georgia, and in preparing for this testimony today I made an effort to talk with as many of my friends in the district who are involved in implementing Federal, State, and local programs regarding rural development as I could.

I got, as you might imagine, very diverse comments, but all the suggestions seemed to focus on four fundamental problems: one, the migration of youth from rural to urban areas; two, the lack of funds for local economic development efforts; three, the need to improve rural schools and technical schools in order to develop a better educated work force; and, four, the need for greater lending flexibility from financial institutions either private or Federal, or facilitating business loans in areas like the one I represent.

Concerning the scope of these problems, I agree with some comments I have heard while I have been here this morning that Federal rural development policy certainly transcends the jurisdiction of this subcommittee and the House Agriculture Committee, for that matter.

I want to mention a few examples of programs that are being considered in other committees in the House that I think we cannot ignore as this subcommittee moves forward and as the full Agriculture Committee moves forward regarding rural development legislation.

Representative Synar mentioned health care in rural areas as one issue regarding that, that particularly concerns me. There are 226 rural hospitals in the country that are scheduled to lose their designation as "rural referral centers" on September 30 of this year under the Medicare Reimbursement Program. The rural referral center provision provides additional funds for these hospitals that act as regional centers for patients transferred from other hospitals.

I think all the members of this subcommittee are familiar with the problems rural areas are having with health care delivery systems in general. The sunset of this particular provision means that these hospitals will lose approximately $1 million each in reimbursement funds over the next fiscal year.

I would urge that we act collectively, those of us who represent rural areas, to encourage our colleagues on the Ways and Means Committee to include an extension of this provision in the reconciliation measure. Without extension of this provision, our problems with rural health care will be compounded even further.

As the infrastructure needs of rural areas are considered, we should recognize the important role of tax-exempt bond financing from municipal projects and business expansion efforts. Unfortunately, the tax-exempt status of these mechanisms is no longer sacred as the Congress is forced to find additional sources of revenue.

In particular, the Small Issue Industrial Development Revenue Bond Program faces a sunset at the end of this year. This program has made an effective Federal contribution to economic development efforts in both urban and rural areas. I would like to see us work together to try to get that sunset extended.

I believe there are a number of programs already in place that address development needs that might be streamlined in order to target rural areas more effectively. For example, Representative McDade has introduced the Rural Housing Improvement Act, a measure that creates new authority under section 502 of the FmHA Program in order to provide home mortgage loan guarantees to rural residents. This bill, pending before the Banking Committee, addresses the lack of sources of mortgage financing for low- and moderate-income rural residents.

I am pleased that Senator Mitchell has recently established a Senate taskforce on rural development in order to take a broad approach in addressing rural problems. I am convinced that the House should also take a comprehensive approach in formulating rural development policy. It is important that this subcommittee and that the House Agriculture Committee follow the example set by the Senate in that regard, in my opinion.

The Second District of Georgia, which I am privileged to represent, I think, is a microcosm of rural America in general. It has a higher percentage of unemployment than any other district in Georgia. The average annual household income is just over $15,000. Only one-half of my constituents have a high school diploma.

Despite handicaps such as this in the Second District of Georgia and throughout rural America, our part of the country is still home to 62 million people. Rural areas are not only rich in natural resources but in culture, values, and character as well.

I appreciate the opportunity to appear before your subcommittee today, Mr. Chairman, and I look forward to working with you and the members of this subcommittee as we seek ways to strengthen the economy of rural America and to improve the lives of those people who live in the rural communities across this country.

Thank you.

[The prepared statement of Mr. Hatcher appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Charlie. I appreciate that very much; it was an excellent testimony. I think you are absolutely right, we have got to take a broad-based approach to the problems of rural development, and it certainly reaches beyond the jurisdiction of this subcommittee. I hope through these hearings we can encourage our counterparts in the sister subcommittees to take up those issues that are going to be critical for a truly great rural development program. Thank you for some outstanding testimony.

Mr. **Hatcher**. Thank you, sir.

Mr. **English**. We will recess until after the election of the new Speaker.

[Recess taken.]

Mr. **English**. The hearing will come to order.

Our next witness is the distinguished chairman of the Livestock, Dairy, and Poultry Subcommittee, Charles Stenholm of the State of Texas. Charlie is a member of the Agriculture Committee and is another one of our experts with regard to rural development. He has been long recognized for expertise in that field which goes back before the time he was elected to Congress.

Charlie, we are happy to have you with us this afternoon and are looking forward to your testimony.

STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **Stenholm**. Thank you, Mr. Chairman.

I appreciate very much this opportunity to appear before you today to discuss an issue of great importance to all of us who have the privilege of representing rural areas of these United States.

I believe, as I heard some of my colleagues earlier this morning testifying, that it will become increasingly evident to more and more of us in the months to come that your series of hearings concerning successful rural development policy must be approached from a wide variety of fronts simultaneously.

Like so many cogs affecting each other and in the end affecting the production of an entire large machine, a positive rural environment is dependent upon numerous sectors working effectively with each other. That, Mr. Chairman, is your challenge and one in which I look forward to working with you in helping to put that machine together.

Each element of the rural community—employment, education, health care, social services, communications, farm programs—must be examined both as separate entities but also with an eye to the role of the larger system. The element on which I want to focus with you today is that of rural health care.

Health services in themselves, regardless of whether they are provided in rural or urban areas, hold a unique position because of the vital issues of life and death which they involve. Beyond that innate importance, however, health services must be considered part of rural economic development because one, the services themselves are sources of employment and two, the existence of services in the health area is imperative if a community is to attract and retain other business and community residents.

Frequently, a rural hospital is the largest employer in a community, and much of the employment is generated by income that does not already exist within the community—for example, importing Medicare revenues or dollars for drug rehabilitation.

At least equally important, if not more so, is the reality that without quality medical services out-migration of residents inevitably occurs and immigration of new community residents and businesses is virtually nonexistent.

Fortunately, through the unflagging efforts of a great many dedicated people, rural health has become a "front-burner issue" during the past 2 years. The efforts of the Rural Health Care Coalition here in the House of Representatives have been rewarded with considerable success. The primary health committees of this body, Energy and Commerce and Ways and Means, are right now engaged in important deliberations concerning hospital reimbursement and personnel shortage issues. I am most hopeful that in these appropriate arenas, some additional relief will be delivered to rural communities again this year.

Unfortunately, though, the threatening alarm that more rural Americans will soon be without health care continues to sound. In response, numerous legislative proposals to help rural hospitals stay open, attract health professionals to rural areas, and reinforce emergency care systems are being discussed as partial solutions. Without duplicating these efforts, however, I would like to offer a new proposal whose proper home, I believe, is within a rural development effort.

Anyone who conducts even a minor survey of current efforts to improve rural health services today cannot help but feel a great sense of optimism and encouragement. Those things which have always made rural people outstanding—self-determination, creativity, persistence, frugality, genuine caring, and commitment—have never been more evident than within these people who are trying to improve rural health care.

Pat Hart's leadership at the National Rural Health Association, Kevin Fickenscher's energetic creativity at North Dakota's Office of Rural Health, Jim Bob Brame's field hearings all across the State of Texas, Sam Cordes' vital efforts at the University of Wyoming, Harvey Licht's work to find physicians for New Mexico's rural minority populations, coordinated efforts by the folks in

Rockville at the Office of Rural Health Policy—for all these people, working to improve rural health care isn't a job, it's their life.

But when asked, these same people will also tell you about some of the brick walls which they all encounter in their efforts. They tell you about the wealth of information which never gets shared because there is an inadequate network of communication from State to State or from State to Federal Government. They tell you about wasted leadership potential in communities because there are not resources to develop those leaders. They tell you about the frustration of having to say "no" to communities asking for technical assistance on a grant proposal or physician recruitment efforts because there simply isn't sufficient staff to respond. And they tell you about how little money really would be necessary to make a tremendous difference.

Seventeen States across the country today have created an office or other focal point of rural health and, in doing so, have given themselves noticeable advantage in serving the health needs of their rural citizens. Unfortunately, in too many States these needs are not being met at all or being inadequately met.

For these reasons, I propose to you that the Agriculture Committee's rural development initiative include authorization for a matching grant program encouraging States to establish offices of rural health. The establishment of these State offices of rural health would, one, raise an awareness across the country of the need to address rural issues; two, help to integrate State, Federal, and private sector activities; three, encourage the development and sharing of innovative solutions for improving access to quality care in rural communities; and, four, allow States to provide communities desperately needed information on sources of assistance.

Because rural problems are not uniform but, rather, have many unique local and regional dimensions which each State office should address, the grant would give discretion to each State as to whether the appropriate locale of the office should be a State agency, educational institution, private contracting organization, or some combination thereof.

In what I find to be amazingly refreshing, in a place where $50 million is usually represented by an asterisk, I have found a terrific amount of support for this proposal which would cost less than one-tenth of an asterisk. Total funding for the 3-year Decreasing Grant Program would amount to $3.75 million in fiscal year 1990, $2.5 million in 1991, and $1.25 million in 1992—a grand total of $7.5 million over 3 years. Each recipient State would be required to match, one for one, the maximum, $75,000, $50,000, or $25,000 grants for each of the 3 years respectively if they are to receive the Federal dollars. Administration of the program would be through the already existing Federal Office of Rural Health Policy within the Department of Health and Human Services, an entity just created by the Congress a few short years ago.

While a considerable amount of leeway would be granted each State office to respond to local rural needs, several requirements would be made of these offices. First, they would be required to coordinate and cooperate with the efforts of the agricultural extension services now dealing with rural development. Second, they would have as a continuing guideline the requirement to examine and make recommendations on improving the cost-effectiveness of quality rural health care delivery. Furthermore, they would be required to communicate and coordinate their efforts not only with the Federal office but also with other State offices.

In conclusion, Mr. Chairman, let me again express my appreciation to you for allowing me to appear here today. I look forward to working with you on these and other proposals as we deal with this vitally important task for our rural areas. I say again, in all of the questions and proposals for rural development, we have got to begin with the availability of health care in rural areas, or I suggest that other efforts are going to meet with a considerable amount of failure.

Thank you.

[The prepared statement of Mr. Stenholm appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Charlie. I think you have made some excellent points.

This morning, a point was raised, I believe by Dan Glickman, with regard to the hodgepodge of different programs, agencies, and whatever, that may be available to help a rural community in some area that could be classified as some phase of rural development. Do you see merit in the concept, the idea, of trying to consolidate and to adjust and redirect some of the programs that we presently have in existence today to meet some of the very basic needs that we have in rural development?

Mr. STENHOLM. Absolutely, Mr. Chairman. Within the Department of Agriculture, within the confines of the House Committee on Agriculture, I think we would be extremely derelict in our duty if we did not.

I have been using the term "sunsetting" in my other subcommittee. I think it is time for us perhaps to look at a lot of entities and, at least in our own minds, to sunset them. We must take a look at where we want to go, and then take a look at those resources we have. Now nearing the 1990's, we must prepare for this once every thousand-year occurrence, a new millennium and a new century in 11 short years. This legislation must look into the next century, not just at 1990 and 1991. It has got to be far-reaching.

There are not going to be any instantaneous cures; just like in the area of rural health, there is no magic wand that we can wave. Money alone will not solve the problem as more and more of our rural communities concerned about health care are finding out. There is much more to their problem than just dollars.

But to answer your question, I say, absolutely.

Mr. ENGLISH. Very good. I appreciate it.

Certainly we are going to be calling on you and your expertise in assisting us as we move through this process and finally arriving in putting together a piece of legislation. But it seems to me that coordination is necessary and a very tightly wound piece of legislation that directs toward a specific problem, specifically, basic needs that have to be met before a community has a chance to fully develop and prosper in the future. We are certainly going to have a great challenge before us.

Mr. STENHOLM. I would make one other comment along that line. I hope that we will avoid making too many decisions inside the beltway without checking with the people we are talking about. We need local input, citizen input. So often I think that our rural communities criticize many of the programs that perhaps even you and I have been responsible for passing, even though we may have good and valid reasons for passing them. But then when we get our ideas out into the country we find that what may work in Oklahoma and Texas might not work as well in another State. Usually we would say that the other way: It may not work as well in Oklahoma and Texas as it works in New York, or Illinois, or Pennsylvania, or California. I think this is going to be one of our challenges, but not an insurmountable challenge. It is one which, I think, presents an opportunity as much as a challenge.

Mr. ENGLISH. That is the reason this subcommittee tends to have regional hearings during the month of August, so that we do give people in the local areas the opportunity to testify and have input with regard to creating this legislation.

Thank you very much for your testimony. I appreciate it very much.

Mr. STENHOLM. Thank you.

Mr. ENGLISH. Our next witness is Byron Dorgan from North Dakota. Byron has been a great leader in rural development over the years. As a member of the Ways and Means Committee, he certainly is one that is going to have a great deal to say with regard to some of the proposals from the Rural Health Coalition.

Byron, we are looking forward to your testimony.

STATEMENT OF HON. BYRON L. DORGAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH DAKOTA

Mr. DORGAN. Mr. Chairman, thank you very much, and I appreciate your holding these hearings and developing a base of information about opportunities in the development of rural America.

I want to make a couple of points. First of all, I don't think anything good is going to happen in diversifying the economic base in rural America unless we have a specific affirmative action program to make that happen.

I note that in Los Angeles the average home price is now $200,000, and they are modifying their major freeways to provide for six lanes in each direction. They are doing that because of population aggregation in small areas, which is where the jobs exist and also where Federal spending tends to move and the private sector initiatives are present. It all comes together in one large population and environmental mess.

It seems to me that we ought to think through in this country—and particularly in Congress—a better strategy to diversify opportunities around the rest of the country. I will soon introduce a number of pieces of legislation, that I would like to mention to you today, that I think would make some sense in developing that affirmative strategy for rural America.

One of the things that we might want to do is make certain that the range of grants and loans that are available in this country for a number of different development enterprises and different activities be provided in fair proportion to rural America. That has not been the case in recent years.

Generally speaking, what we do in the Federal Government trails where people live. So the large congregations of population generally get more money from most of these programs. It seems to me that much of what we do at the Federal level could be retargeted and redirected to provide more stimulus for economic expansion in the rural areas.

I have proposed just in the last week a program called rural development investment zones. Mr. Chairman, you know and I know that for years we have been hearing this drumbeat for urban enterprise zones. I have not been a big fan of urban enterprise zones, but it occurs to me that with Jack Kemp down at HUD and that drumbeat tending to continue with even higher volume we might see Congress one of these days starting to take a look at urban enterprise zones, and if they do I want to make certain that something comparable, something I have developed called rural development investment zones, be considered in the same breath.

It seems to me that there should be incentives in the Tax Code that could be useful in persuading those who are looking for expansion to consider our parts of the country. I am suggesting a 10-percent investment tax credit and 10-percent wage credit for those who do move to designated areas of rural America and provide jobs and opportunities in those areas.

I would also think that we should attempt to redirect some of the focus at the Department of Agriculture to the area of rural development, and I would propose not only a name change to the Department of Agriculture and Rural Development but also I would establish an Under Secretary for Rural Development and begin to focus what we do in this Government as a specific strategy for rural development.

We have a lot of jobs in the Federal Government that exist around this country, and whether it is processing tax returns or a central office for the CCC, or you name it, it is some kind of office where you have got a lot of Federal workers. It is interesting to me that almost always you will find those jobs in major cities. It doesn't make any sense. Those major cities are areas where you pay the highest rent and you pay the highest wages. In many cases, you are not able to find the right kind of qualified labor.

I have been talking to a number of Federal agencies that do information processing. In today's age with satellite transmission and telecommunications Bismarck, ND, is as close to New York as the Hudson River. We don't have any disadvantage in information processing, and yet where do we process our income tax returns? We still process them in the cities.

North Dakota ranks almost first among the States in the installation of fiber optic technology for telephones. We rank fourth in the States in high school graduates. If you just go down the list of things that you need for information processing—and I expect the same is true of Oklahoma—we are a perfect place to do these sorts of things, and yet what the Federal Government does generally is conduct those activities in larger areas, in the cities. It makes no sense to me.

We should, as a matter of policy, in our Tax Code, in our expenditures, in our long-term planning, decide to have an affirmative action program for the development of rural America. It would cost the Federal Government less money, it would provide for economic diversity and opportunity in parts of the country that desperately need it, and it would just make generally good sense at a time when we see our cities unable to meet their air pollution standards, the cities crowded and infested with crime; it would make good sense for us to develop an alternative approach to development.

So, Mr. Chairman, I have a number of specific proposals that I am offering and have offered in legislation called rural development legislation and the rural development investment zones and other things, and I think if you can develop a menu of those items that are coming from my colleagues, many of whom have offered just excellent suggestions, and select from that menu of items some of the best and most exciting and interesting suggestions, then finally we will begin to make some progress.

Let me make one final note. The Senate, Mr. Chairman, has included in the budget a specific quantity of money designated for rural development. They have, in the Senate, developed a taskforce for rural development that combines the disciplines of a number of committees.

The rural development area in the House, of course, is in the Agriculture Committee, but it might be well for us to think through a little bit how we are going to deal with this proposition coming from the Senate and how we can impose with the Senate the very best of solutions that are offered from a whole series of disciplines in the House of Representatives and the Senate to try and stimulate some activity in rural America.

I think we are on the threshold of some new focus and some exciting new opportunities in rural America if we can harness the energy that exists in the Senate and the House now with some affirmative action to try and actually, finally accomplish something beyond just talking about it.

Mr. Chairman, thank you for holding these hearings.

[The prepared statement of Mr. Dorgan appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Byron.

I would agree with you wholeheartedly. I think that, without question, we are going to have to work very closely together. The Ways and Means Committee, of course, of which you are a member and which we are going to be extremely dependent upon as far as dealing with some of the health care matters in particular.

I know that you and some others in the Ways and Means Committee have been in the forefront of attempting to adjust our tax structure so that it recognizes some of the qualities that exist for people who live in rural areas, and we want to make certain that the efforts that are made in this subcommittee complement the work that is being done by our sister committees. So we are looking forward to working very closely with you.

We may not have a formal taskforce—the leadership may decide on it later, but at this particular time we don't. But certainly there is an informal network of Members from rural areas on the various committees that we are going to be dependent upon, as far as coming together with a comprehensive piece of legislation. So we are looking forward to working with you in the future, and we appreciate your testimony, and we hope that you will continue to offer suggestions to this committee as we move along, and we, too, will be looking over your shoulder in Ways and Means and the fine work that you do there.

Mr. DORGAN. Thank you, Mr. Chairman.

I have offered written testimony that I have chosen not to read, and I would ask that it be made a part of the permanent record.

Mr. ENGLISH. Without objection, it will be made a part of the record. Thank you very much, Byron.

Our next witness is the Honorable Ike Skelton of Missouri. Ike is chairman of the Congressional Rural Caucus as well as being chairman of the Small Business Subcommittee on Procurement, Tourism, and Rural Development. Ike, being from Missouri, is well acquainted with the problems of rural development and rural life.

Ike, the leadership you are carrying forth certainly in the rural caucus has been of tremendous importance to us, so we appreciate you coming before us and offering your testimony; we are looking forward to it.

STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. SKELTON. Thank you so much, Mr. Chairman.

I think that you should be commended for holding these hearings and looking forward to legislation which you will mark up at a later date on rural development. I don't think there is anything more important to the future of our Nation, especially the rural part of our Nation, than lighting the fire back under rural America as it once was, lo those many years ago, and I certainly compliment you on your leadership. This is an outstanding piece of work that you have undertaken.

I want to touch on an item that may be a bit different from some of the other thoughts that we have had. We all know the problems of rural America, the aging infrastructure that we have there, rural bridges, to mention a few, the poor health care system that we have, and the differential, as you know, between the metropolitan statistical area Medicare payments and the rural areas, the brain drain of our bright young citizens that leave the small towns and the rural areas to go to more populous areas, and high energy and transportation costs. For instance, the State of Missouri, per capita, which is a rural State, has more gasoline expended than any other State except one other in the Nation.

These are just a few examples of problems that the nonrural areas don't have, and these issues have to be addressed by us. They will be addressed by you in the work that you do.

I would like to mention one investment that this country can make, and that would be in rural technical information infrastructure. That is a fancy phrase, but we all know what it means. With this investment will come the full use of our Nation's human resource—that is, people.

In this modern age of rapid information output and retrieval, rural America must not fall behind. In a manufacturing age, of course, resources like machinery are important, but as time goes on their worth decreases. In an information age, which we have today, people take on an increasingly critical role, and people, as they collect information, master their jobs, and acquire new skills, increase in value with time.

Information and education will empower local leadership and business to operate at full capacity. The rapid transferal of information will assist agriculture, it can assist rural industry, it can assist rural smalltown students, it can assist senior citizens, small businesses, local governments.

In this era of fiber optics, computers, and satellites, we cannot ignore the potential advantages of the strong rural communications and information system. Already there are schools in Missouri, which, as you know, is my home State, and other States that connect with universities for foreign language and for science classes. Forty additional satellite receiving stations are being installed at or near county extension centers in Missouri. This will bring to 50 the number of extension centers in the State with a capability of receiving a wide variety of educational programs by way of satellite.

These are just two examples of current technology in use, and these examples also use existing sources for their information—universities and State cooperative extension systems. They are already there. Information linkage will also assist the average citizen in rural areas, putting these citizens in contact with economic and social services at the Federal, State, and local levels.

One of the problems with delivering assistance and services to rural citizens is that many times the residents either do not know what existing assistance they may receive from the Government or private assistance or they do not have the capability to connect with these services. Rural hospitals, for instance, will be able to transfer data such as x-rays, to quickly consult with specialists in emergency situations from somewhere else.

Through communications and information systems, local government and community leaders can gain the same resources that thrive in our Nation's urban centers, and local leaders will be able to easily obtain the knowledge needed to make the best decisions for their communities.

Most importantly, state-of-the-art communications will enhance the growth of rural small businesses. Growth in small business can stimulate overall economic growth. Small businesses, those with 500 employees or less, are today shouldering most of the burden of job creation and innovation, creating over 60 percent of the new jobs. Also, they employ 56 percent of the nonmetropolitan workers.

Rural communities need the capacity and the capability for their local businesses to interact with companies for which subcontracting can be done, software that can provide directions for computerized equipment, and information sources that allow businesses to respond to new market possibilities.

Mr. Chairman, this may be a new thought for you, but it is one that must come to pass if rural America is to be competitive and to hold its fair share of the work as well as the burdens and the challenges of our country.

I ask unanimous consent that the entire testimony which I have prepared be put in the record.

[The prepared statement of Mr. Skelton appears at the conclusion of the hearing.]

Mr. **English**. Without objection, it is so ordered.

Mr. Espy, any questions?

Mr. **Espy**. No, I have no question right now, Mr. Chairman.

Mr. **English**. OK.

Ike, I thank you very much. It is a fine testimony, and you have made some excellent points. I think that, without question, we are obviously going to be dealing with very limited resources, and I think part of the challenge that this subcommittee is going to face is trying to identify what we can have the most impact on that is going to have the greatest benefit overall in a rural development program.

I have found, in the discussions I have had, that various regions of the country have different ideas about what rural development means. Different people have their own concept of rural development. So as we address the problems, we are not going to be able to simply focus in on one particular problem because it may apply to one region and not apply to another, and that is going to be extremely difficult for us to deal with.

Certainly, Ike, in your capacity as chairman of the Rural Caucus, you come in contact with that, and we are going to be looking for a good deal of guidance from you. We deeply appreciate your testimony.

Mr. **Skelton**. I might add one additional quick thought. I was asked recently, "What is the most important thing that you need for a community to grow, to do better?" and I am convinced that it is the leadership in the community, the imagination, and the cooperation of the community, and any way we can help this leadership with education, knowledge—and one of the ways is this—the better.

Money is down the list, I am convinced. It is necessary, but you need the information, the education, and the leadership before you get anywhere at all. All we can do, really, is to light the fire under those potential leaders in rural America, give them a direction, and encourage them. I am convinced rural America has a great reservoir of knowledge, energy, and intelligence, so, with your help, I think we will tap that.

Mr. **English**. I think that is an excellent point. We can provide assistance, we can provide help, but we can't do it for them. When it comes right down to it, the ultimate success or failure of a community is going to continue to be dependent on the people in the community, and not just one or two leaders. It is the community itself, the spirit within that community. I think we can provide a willing and helping hand, but we can't do it for them.

Thank you very much, Ike.

Mr. **Skelton**. Thank you.

Mr. **English**. Our next witness is one of my colleagues from the Oklahoma Congressional Delegation, Wes Watkins, who is a member of the Appropriations Subcommittee on Rural Development, Agriculture, and Related Agencies. Let me say that Wes Watkins has been talking about rural development ever since he has been in Congress. He has worked very hard at it. He has had a great deal of success at it. He is extremely knowledgeable about it.

Wes, we deeply appreciate you sharing some of that knowledge with us and testifying before the subcommittee.

STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. WATKINS. Thank you, Mr. Chairman.

I ask unanimous consent that my full testimony be included as part of the record, if there is no objection.

Mr. ENGLISH. Without objection, it is so ordered.

Mr. WATKINS. And, my good friend Congressman Espy, I am glad to be here with you and my colleague from Oklahoma.

I would like to talk mainly from the heart, if I could, because my experience all my lifetime just about has been in rural areas and having to leave, like a lot of other people, after five decades of outmigration from the rural area of southeast Oklahoma.

You are correct, Mr. Chairman. For 13 years I have felt like my voice has been silent or has been lost in the wilderness, and I am excited this day because of your tenacity about wanting to do different things, and I was elated when you became chairman of this subcommittee. I felt that not only would we at least be heard, but I know you will be attempting to implement and try to carry out some legislation, because, Mr. Chairman, I have been to this table three or four times over those 13 years, and basically we have never made a major piece of legislation move forward to try to redo what we need to be doing in rural America. Without question, we have a restructuring going on in rural America, but many times it has been ignored.

For 8 years I have introduced legislation for basically the restructuring of the U.S. Department of Agriculture. I have reintroduced that this year, H.R. 831. Mr. Chairman, as the previous speaker discussed, I know there are a great deal of different concepts out there, as you have indicated, that people have about rural development, but I submit to you, after my years of hard knocks and experience, if it does not lead to development of off-farm jobs we are not going to succeed.

We have got to move as rapidly as we can, I think, in building the off-farm jobs, and that is what I have tried to design in H.R. 831, because we do need to look to the leadership that is out there, but I also submit to you that we have got to try to motivate that leadership, we have got to give them a vision on what can be done, because they have lost hope. Many of them have been willing to come to meetings month after month, year after year, but they haven't seen many things happen, and the decay has taken place, the deterioration, the moving away of their loved ones.

So I submit that we have to, in what I call targeted economic investments, in regional growth center areas within commuting distance of most communities—we cannot probably go into every community overnight, but we have a structure out there that if we went into the growth centers with off-farm jobs a commuting distance from nearly every community, we would be seeing people stay and live in those small communities of the delta area, commuting 20 miles to a job in a growth center area. I submit to you that that is possible, that is doable, and I want to share with you a few of the things I think that could be done in that, what I call targeted economic investment.

First, I think one of the basic things we need to do, so it sends a message across America to change the name of the Department of Agriculture to the Department of Agriculture and Rural Development or something of that nature, and to say rural development because if it is just rural affairs that doesn't signify that we plan to develop it. We have every right to insist on that. We have a Housing and Urban Development for this great country. Why not have an Agriculture and Rural Development?

When I came here, I found that in the Housing and Urban Development offices—HUD—they did not even keep statistics on communities of less than 2,500. I have even got a letter in my files to a mayor of a community which says, "We don't even think you exist"—this little town. They showed it to me. They exist out there, but they do not have any particular—did not have them. I insisted over the year that they include those.

I want to talk about restructuring of the USDA. I think it would be the best thing also to help us with our farmers and ranchers. Mr. Chairman, you know very well my agricultural background and my love for agriculture. I have got two degrees in agriculture. I am a former State president of the Oklahoma Future Farmers of America. My love and my roots go deep in agriculture. It bothers me when I go into a lot of the various county offices and I find that farmers cannot be waited on because the Farmers Home supervisors are having to work on another project of some type.

I think by streamlining in USDA there is a very distinct area that could be divided into what I call a farm administration, working with the farmers and ranchers under the farm administration doing agricultural services and delivering those services in a more effective way, having then a rural development office that would handle the things like the water and the housing and apartments and the sewers and all these things.

Many of those things that Farmers Home county supervisor might do only one time out of every 2 or 3 years. It is hard for him to stay knowledgeable because it is like doing our income tax once a year. If we did it every week, we would be very efficient in it. I think there is a way we could streamline that and work and, instead of just having glued on to these various agencies some of the things that have really grown up, Mr. Chairman, over the last 25 or 30 years, we just kind of plug them into different areas.

It would be worth yours and the committee's time to really look at this to see which is the most efficient way for these services to be delivered, yes, for our farmers, for our ranchers, but also for our people in the small cities and rural communities of this country. I think we must restructure the USDA because, Mr. Chairman, rural America has been restructured.

Back in the Depression, we had 65 to 70 percent of our people in the production of agriculture. Back when I served as State president of the FFA in Oklahoma 30 years ago, I can still recall to this day going across Oklahoma and other States, giving a speech that our farmers and ranchers were doing a great job because there were only 16 percent of our people in the production of agriculture. That was 30 years ago. Today, making that same speech as a Congressman, I say that our farmers and ranchers are doing a great job because there is only 2 percent of our population in the production of agriculture. So in the last 50 years it has gone from about 60 percent or so of our people in the production of agriculture down to 2 percent without, basically, very much restructuring of the USDA at all. I think there are some ways we can restructure that.

Some specifics I find as I go about devoting a great deal of my time to trying to build those off-farm jobs, because whatever concept you look at, we have got to produce off-farm jobs so literally some of our farmers can have jobs in town and still be able to stay on the land, or if we want our loved ones to be able to stay there, that they be able to have at least an off-farm job.

Many of our communities have "cut-and-sews." That is where the spouse may be able to have a job while the husband may be able to continue punching a few cattle or farming a few acres of land, but they are off-farm jobs, and it allows them to stay out there in those areas. So anything that doesn't lead to that—I would say that the No. 1 objective should be: Will this help us go toward building off-farm jobs in rural America?

For instance, industrial financing. I talk to chief executive officers every week about locating in my area in Oklahoma. First, Mr. Chairman, they usually get around to asking, "Do you have industrial financing packaging available?" In many cases in rural America we don't. That is why some of us a few years ago worked to try to get 15 percent of the rural electric co-op money set aside that could be utilized for rural economic development, and it could be utilized in different ways. That is in place. There are some other areas, I think, that you and I have talked about in off-budget or in items that could be done on secondary financing for rural industrial development. It should be done.

Mr. Dorgan mentioned enterprise zones. Mr. Chairman, the first year of the Reagan administration, he came out with the urban enterprise zone. I started working and insisting immediately that we have rural enterprise zones and introduced a bill to do just that. Finally, after getting a number of signatures and working with the administration, they agreed that they would set aside one-third of the urban enterprise zones to have rural enterprise zones so we could be treated with some kind of fairness. That has never been enacted in total to this day because it has not been a priority of that administration even though they advocated it. Not one time in the committees did they ever advocate or push for that particular program. It was rhetoric, total rhetoric, and I submit to you, it is going to take also some revenue. I recognized that on appropriations even on budget as well as doing the other kind of financing along the way. I think you have some good ideas in your mind that might work there.

Second, industrial sites. People will not just come—the chief executives—to a cow pasture. We have got to be able to provide the infrastructure there for industrial facilities and, more specifically, in and around the growth centers and the airports.

Mr. Chairman, in Durant, OK, today we have a number of new industries going in there. We have got them also in Ardmore, and we are building an industrial area in Hugo, OK, around the airport.

Why have I discovered over the years that it is important to build in and around an airport in order to have industrial growth and development? Mainly for this reason, and more so today, Mr. Chairman, than ever, since we have got the hub system in the airlines. It means that for States like Oklahoma, Mississippi, and others that do not have a hub, it is nearly impossible to get many chief executives to take commercial airlines to, like, Dallas, and then come over to Oklahoma City and then drive 2 hours.

These chief executives, Mr. Chairman, are in the six-digits—$200,000, $250,000 a year, $500,000 a year chief executives. They want to fly directly into their plant site areas. They want to fly directly into an industrial airport area, in maybe a regional industrial growth airport, because their time is valuable, and if we are going to build rural America, I submit to you, that is one of the things we have got to do—be sure and make that opportunity available for us to improve our airports in Oklahoma, Mississippi, and many other areas, at least in the growth center areas, so we can start building those jobs within commuting distance of all of our people in rural America.

Third, Mr. Chairman, industrial facilities. I have, as I talk to chief executive officers, stated there have been 90 percent of them wanting existing buildings. They want to move and make some kind of expansion. I am not talking about the General Motors, I am not talking about the General Electrics, I am talking about many of these smaller industries that supply these giant industries, supply the defense industries, maybe 100 or 200 jobs. In fact, in many of our small communities, we have got 25, 50, or 100 employee jobs. That is a major impact. They don't feel that in the major urban areas.

But let me say, Mr. Chairman, I have found that in working with Oklahoma Gas and Electric—OG and E—through their statistics, 87 percent of the industrial prospects are looking for existing facilities, and I ask you to reflect on that. I always said 90, and I think 90, but it verifies I am basically correct when they say 87. That means if you do not have a facility that you are only going to get to see maybe 10 percent possibly of those that may be looking, and usually not that many because they have got other opportunities closer to some urban areas or something that would allow them to have greater access.

A couple of things also, Mr. Chairman, I want to move quickly to that we have proposed and we feel strongly about because it has been working in my area of the country, and that is technology research centers. I know Mr. Skelton talked about technology information, but technology is one of the very vital phases of small industries being able to expand.

All industrial development specialists will tell you the quickest way to build jobs is to help existing industries expand. Most of them need technology to expand, finances, and also need markets, one of the things we have been trying to do in international trade development. So I submit to you, Mr. Chairman, that we have got to provide the latest technology to our small and existing industries across rural America.

I am presently working on trying to build an advanced technology research center in Oklahoma. Along with that advanced technology research center, I propose that we look at modifying and maybe providing a little additional dollars to the Extension Service, because we have had that change in the structure of the population out there.

I submit to you, if we do not make some positive changes in the Extension Service that it will probably not be in existence in the next 6 to 8 years because previous administrations have tried to zero it out. I think we need that delivery service, that delivery system, in every county across America, but we need to modify a little bit of its responsibilities to try to also provide technology to business and industry. I have submitted that to the board of regents at Oklahoma State University, I have submitted the advanced technology program there, because I find that we have got to get the technology there to small business and industry, just as we did, Mr. Chairman, in agriculture.

As we all know, the Hatch Act established the agricultural research centers at our land-grant universities, and about 12 years or 14 years later along came the Extension Service that took the research by the Extension agents out to literally technology transfer extension agents for agriculture, out to the farmers and ranchers.

I was taught to grow four blades of grass instead of one. We must be able to provide the technology needs to business and industry just as we have in agriculture. I think we have got the minds and extension to do it. I think with short courses, with modifications, it could take place. I think we could have that delivery system in place in assisting across the United States of America in the next few short years. So I submit that to you as one of the things I think would be worthy of your consideration. I have requested that Oklahoma be looked at as a pilot in trying to make some of this happen and work, because we do have a technology extension agent in my region of the State of Oklahoma.

One other thing, and I don't know exactly how we get a hold of this, Mr. Chairman, but I submit to you that we may have to think about it. Deregulation has been a disaster for rural America. I tell people openly that probably one of the worse votes I ever cast was on deregulation of the airlines. I can hardly get home. But think about the same chief executive who is trying to get to rural America to try to locate or invest a great deal of his savings in trying to say, "Where do I build opportunities? Where do I make jobs happen? And what is the best opportunity, the most effective and efficient way for my company to do that expansion?"

Deregulation has hurt the airlines, the trucking industry; railroads are becoming extinct in rural America because we don't have the agricultural commodities shipped in the same way any more. We have got to look at that very carefully or we will actually contribute to the demise of rural America. I submit to you, it could be a death blow. In the deregulation of our financing institutions, we have money leaving rural America always now instead of coming back in.

So these are some of the things that I submit to you, and I apologize for being a little lengthy, but I have got a lot longer testimony I would like to make part of the record.

But, Mr. Chairman, I am excited today. I am excited because you, as chairman, my colleague from Oklahoma, head this subcommittee that will authorize the new direction for rural America. I submit to you that I will give you 100 percent cooperation in every way that I can, including doing everything I can to get some additional resources along the way.

I will not go about trying to hoodwink the people of this country. This past administration, after 8 years, said, "We are going to have a rural development initiative." I was excited when they came out with that, this past administration. I thought, "Hallelujah. Finally, after 8 years, they have decided to do something." I studied it, Mr. Chairman, quite quickly and realized that they were proposing using only 20 percent of the money that we were presently appropriating for rural America. They were right; it was the first time they had ever talked about a rural development initiative, but they were going to do it with only 20 percent of the dollars.

Rhetoric is cheap, but the commitment that we all have got to make to our citizens out in rural America means that we have got to take some action, and I submit, and I feel today from the depth of my heart because you are chairing this committee along with your colleagues, we have an opportunity to start restructuring and start rebuilding life, and hopes, and dreams, and ambitions for our people throughout most of this land. Let's rebuild rural America. Then we can relieve the concrete jungles of our major cities, where they have a much greater crime problem, a much greater identity problem, a much greater self-esteem problem, with a lot of their population which, I think, would be better served if we had our loved ones living in those towns in Mississippi, and Indiana, and Oklahoma where many of them have roots.

Thank you, Mr. Chairman, for allowing me to be here.

[The prepared statement of Mr. Watkins appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Wes. I appreciate your testimony. It was fine testimony.

Certainly, being a member of the Appropriations Committee will play a very important role in any authorization that comes forth from this subcommittee. Do you feel that, as far as your colleagues on the Appropriations Committee are concerned, they are going to be receptive to a major rural development bill this year?

Mr. WATKINS. I think they will be receptive. I think, without question, Mr. Chairman, we would have been in much better shape 8 or 9 years ago to be able to do something, because today with the, what I call crunch, the Gramm-Rudman, from the bottom, reducing the deficit to $100 billion, which we have got to do, those deficits have accumulated tremendously during these 8 years, and the new programs that the administration is adding to the cost, and without any new revenue. So there is a crunch taking place.

I am quite sure that my colleagues—and I can assure you from my viewpoint—will do everything we can to try to get some additional dollars for some pilot programs and things like this that could lead to some future development out in rural America across this Nation.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman.

I don't think the gentleman should apologize for the length of his statement at all. I think he ought to be complimented on the statement. I thought it was a magnificent statement.

You speak from authority, and you speak with passion. It is very evident to this member, who has only served in Congress for a short time, that you have been grappling with these ideas and that you are frustrated with the fact that the administration in the past, and maybe even the President, hasn't been as receptive to these ideas as you think he ought to be.

I just want to tell the chairman and you, Mr. Watkins, that I want to work with each of you in every possible way, because I, too, am excited that we are starting to talk about the nuts and bolts of, I guess, "perestroika" for rural America, a major restructuring in an economic development way for rural America, focusing on the development of off-farm jobs.

Let me ask you, though, in the ideas that you presented, did you ever approach this administration with some sort of a geographic set-aside measure, much like the minority set-aside programs we have, where you can, for instance, designate certain activities from the Department of Defense, say, to slice off 1 or 2 percent of that $300 billion a year to geographic entities in America? Have you ever suggested that, and, if you have, were they receptive?

Mr. WATKINS. Yes, sir, Mr. Espy.

Being receptive and maybe also just getting the Congress to go ahead and pass it into law may be two different things, but, for instance, I was author, along with Senator Grassley, of a set-aside of UDAG, 25 percent of the UDAG money, for small cities and rural communities of less than 50,000. That allowed us to not have to compete with Chicago, New York, and that area. Also, in the same way, insisting and pushing on getting a set-side of the CDBG money—Community Development Block Grant money.

One of the things I tried to do when I was chairman of the Congressional Rural Caucus for some 6 years was to seek other set-asides so that many of our areas could have some kind of fairness. For instance, Mr. Chairman, some major cities have more grantsmen than we have population in a town. Many of them do not know how to even fill out an application to get water, or sewer, or some of the EDA unless they solicit some kind of consulting engineers or others to get that.

So in order for us to have some kind of fairness in some of the small cities and rural communities, we have got to have at least what I consider, populationwise or otherwise, some kind of opportunity to get there, or we would never be able to get there. I have not ever submitted on defense contracts or anything of this nature, but we have in some of those other community development activities.

Mr. ESPY. As the gentleman knows, we do have programs like the Public Law 99-166 program which requires that DOD set aside about 5 percent of the procurement dollars for minority companies. I don't see why we can't start talking about something of that nature, on that level, for geographic entities of this country with low levels of per capita income. So I would love to work with you to do that.

Mr. WATKINS. Let me ask you something, Mr. Espy. I would like for you and maybe the chairman and others to make sure that we don't overlook this point. Some of the legislation has said, well, let's look at the out-migration in the last 10 years, some of the happenings in the last 10 years. In your area and a lot of my area, we have had five decades, and we would like to try to rebuild where we were 5 years ago.

If we just look at what has happened in the last 10 years, we are not going to rebuild the delta, we are not going to be rebuilding the depressed economic areas of Arkansas and Oklahoma because the major percentage of that out-migration has taken place the decade or two before.

So let me encourage you to hold on to this and not let that slip when you start shaping some legislation, because I noticed that in some legislation my area would not even qualify if you looked at the last decade because we had already lost so much prior to that time that we didn't have the percentage of shift in the last decade.

But let us go back and rebuild those areas. I think it would be the greatest thing that ever happened for this country, to have a Marshal Plan to rebuild rural America. I think it would be the best thing that could happen for our urban brothers and sister also, to be able to allow them to have job opportunities.

Many of our cities have first-generation farm families in those cities, because since the Depression they have had to leave that farm in the out-migration, as I submitted to you a while ago. The percentages have been just devastating over the years.

Mr. ESPY. I agree with everything the gentleman has said and associate myself with his remarks.

Thank you, Mr. Watkins. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Espy.

We are very honored to have the distinguished chairman of the House Agriculture Committee join us. The chairman has a formal statement for the record. Without objection, that will be made a part of the record, and I certainly want to recognize the chairman for any comments he might like to make.

REMARKS OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. Thank you, Mr. Chairman, and I apologize to my distinguished colleague, Ms. Long. I just came in to reaffirm my commitment, Mr. Chairman, to what you are doing and hopefully coming up with some answers to what is occurring in rural America.

I want to commend our distinguished friend from Oklahoma who has been at the forefront of everything we have done in rural America since he has come into Congress. We very much appreciate the work that he has done and the leadership that he has given in this area.

As I travel around the country, Mr. Chairman, there is no question that Main Street, rural America is dying, and many are leaving for lack of employment. Even in the better times, as the number of workers was declining because of mechanization, we were already having a problem, even in good times, and, Heaven knows, in bad times that is aggravated more so.

I think this is very timely, Mr. Chairman, for you and your subcommittee, that you meet and begin to forge the consensus of how we can assist rural America, because if rural America dies then the rest of the Nation follows right along. We can't allow that as a people or as a Nation. I do hope that after the hearings your consensus building will accrue to the extent that we have some viable, workable legislation.

I know these are hard times, very difficult times, as far as the budget is concerned. As a matter of fact, I was telling the chairman of the Budget Committee that I wake up in the middle of the night saying, "It's budget neutral." But I think there are things that we can do and there are policies that we can set in place. If you just have to have the money, you have to have the money. But not 1 cent that is spent in rural America is wasted because it is the best investment that we could make of taxpayers' money.

I thank you, Mr. Chairman, and I am sorry I couldn't be here to hear the other witnesses, but I am sure all the witnesses and our colleague who is yet to testify will help us reach that consensus as will my colleague from Oklahoma, who has been such a leader in this area.

[The prepared statement of Chairman de la Garza follows:]

STATEMENT BY REP. E (KIKA) DE LA GARZA, D-TEX.
CHAIRMAN, HOUSE COMMITTEE ON AGRICULTURE
BEFORE THE HOUSE AGRICULTURE SUBCOMMITTEE ON
CONSERVATION, CREDIT AND RURAL DEVELOPMENT
JUNE 6, 1989

Chairman English, I want to take this opportunity to thank you for holding this series of hearings on rural economic development. You, Mr. Coleman, the Ranking Minority Member, and all the Members of this Subcommittee face a difficult task.

Many rural communities are in danger of becoming America's 20th-century ghost towns. The past eight years have had a devastating effect on the economic and social structure of rural America.

The farm crisis of the early 1980's was like an earthquake, severely shaking the economic foundation of many rural communities. In addition, year-after-year of budget cuts in the federal programs designed to encourage rural development have further weakened rural America.

You see the consequences when you visit almost any small rural town in practically any part of the country. Main Street is dead. Roads, bridges, and public services are falling apart because of a shrinking tax base. Poverty and malnutrition are growing problems. And young people and young families are moving to the cities for jobs because they have given up hope that there will ever be a turnaround.

All of us here today agree the time has come for a renewed emphasis by government and the private sector in fostering economic development throughout rural America. While much of agriculture is finally on the road to recovery, we realize that a healthy farm economy does not by itself guarantee a prosperous rural America. I believe we all agree that there is great value and a pressing national need to preserve and enhance the health and vigor of rural society.

The question is how do we do it.

How do we keep Rural America from losing another million people? How can we best help the 18 percent of rural Americans who live below the poverty line?

What do we do to improve health care in rural areas? How can we -- the greatest food-producing nation the world has ever seen -- prevent childhood malnutrition from occuring right in the heart of farm country?

What can we do -- perhaps through job counseling and training -- to help people leaving farming and others see beyond their immediate problems and realize the potential that exists in their own lives and communities?

How can we target the commercialization of promising new industrial uses of crops to rural communities? What creative ways can we use our natural resources, such as public and private forests, to meet recreational and resource demands?

How do we help these communities diversify their local and regional economies? How do we fund the repair of rural America's infrastructure -- roads, bridges and water and sewer services?

And most importantly, how do we do address all these equally pressing problems with the limited resources at our disposal?

Mr. Chairman, I am heartened by the interest shown by the Administration, particularly Agriculture Secretary Yeutter who heads the President's Working Group on Rural Development, and our Senate colleagues who are also working on rural economic development legislation. The widespread problems of rural America demand a coordinated effort by federal, state and county governments.

We must all work together. This should not be a Democratic or Republican issue. This is a people issue. People's lives and future are at stake. I applaud and support your efforts here today and offer my help.

Mr. ENGLISH. Thank you very much, Mr. Chairman. We appreciate it.

Ms. Long.

Ms. LONG. I don't have any questions, Mr. Chairman.

Mr. ENGLISH. Thank you very much. We appreciate it, Wes. You have done an outstanding job, as usual, and this certainly, as the chairman pointed out, is a subject that you have been battling for a long period of time. We believe that we can have some meaningful and comprehensive legislation to include in the 1990 farm bill.

Mr. WATKINS. I stand ready to help you. Thank you.

Mr. ENGLISH. We look forward to your cooperation. Thank you very much.

Our next witness is Frederick Upton, who is a Congressman from Michigan. Frederick is one of those who has been interested for some time, I know, in rural development, and we are looking forward to his assistance and his cooperation and leadership in assisting us in coming up with a piece of legislation that will have a big impact as far as turning around rural America.

Fred, we want to welcome you here.

STATEMENT OF HON. FREDERICK S. UPTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. UPTON. Thank you, Mr. Chairman.

I would like to ask unanimous consent to enclose about a 6- or 7-page statement, which I will summarize, for the record, if I might.

Mr. ENGLISH. Without objection, your full and complete testimony will be made a part of the record. So feel free to summarize.

Mr. UPTON. Thank you. Thank you, Mr. Chairman.

I do appreciate the opportunity to appear before this subcommittee to offer my perspective on rural development issues. I commend the subcommittee for its timeliness in recognizing the need to address the critical issues facing rural communities across our great land.

I represent a rural district in southwestern Michigan and have been concerned about rural development for quite some time. In fact, it was the major reason why I ran for Congress in 1986.

Just last week, I introduced House Concurrent Resolution 140, which calls for all appropriate committees of Congress to give due consideration to the advancement of rural development legislation. It is my hope that our work here today will lead to a consensus among our colleagues in the House that now is the time to act to help rural America prepare for the 1990's and the next century.

Rural statistics and indicators are clear. The economic health and viability of rural areas is falling further and further behind that of other geographical areas: rural unemployment rates, 33-percent higher than urban unemployment; rural poverty levels, 33-percent higher than urban areas; rural income per capita, 25-percent lower than urban income. Rural America is going through a socioeconomic transition of historic proportion. While only 2 percent of the Nation's population lives on farms, approximately one-quarter of its residents live in rural areas. In recent years, over 500,000 people have migrated annually from rural areas to urban and suburban areas.

In light of these recent trends, our goal must be to maintain and improve the rural quality of life. The United States has a history of vibrant heartland, and we must do all we can to preserve this heritage. Diversification of the rural agricultural economy but also diversification of rural businesses and industries in noncyclical or anticyclical fields is key to the revitalization of rural areas.

I endorse a comprehensive legislative approach to dealing with the economic development needs of rural communities. The Agriculture Committee would necessarily and rightfully assume the leadership on this legislation, but as we have seen, the needs of rural communities are multijurisdictional. I advocate that this effort be two-pronged: first, a reevaluation of existing Federal programs and the accurate targeting of them toward rural areas; and, second, a well thought out approach to any new Federal programs to address the special needs of rural communities.

In regard to the first prong of the attack, there are over 125 programs which already apply to rural areas. The list stretches from rural water programs to migrant health centers and beyond. With so many programs already on the books, why is rural America in as bad of straits as it seems to be? The answer is that many Federal programs discriminate, sometimes blatantly, against rural areas. Indeed, there is much evidence to support that Federal funds just don't reach rural areas.

Just one of the specific examples of such discrimination is how Medicare reimbursement rates for urban hospitals are lower than rural hospitals. I challenge every Member of Congress representing a rural area and every committee of the Congress to examine the programs under their jurisdiction to determine whether such discrimination in funding truly occurs.

It is imperative that we start with a review of laws already on the books to ensure fairness for the 25 percent of our citizens that live in rural America. Similarly, any discussion of new legislative proposals for addressing the particular needs of rural areas should be designed to fill the gaps of existing Federal programs.

One general area which has consistently been neglected in rural areas is the development of human resources. Investment in people is necessary. We must stop the exodus of talented people from rural areas. In a recent Joint Economic Committee hearing on rural communities, I asked about the role of the Federal Government in education when rural communities sometimes refuse to approve local school millages and States refuse to change financing systems that are discriminatory to rural areas.

One witness, Mr. Robert Thompson, who is dean at Purdue University, pointed out that rural communities may be reluctant to invest further in education when their best and brightest talents, almost without fail, leave the area to better their individual economic prospects. Helping to improve the economic prospects of rural communities as well as specific ideas to assist rural schools should help turn around this exodus from rural areas.

All of the rural policy proposals from each committee could then be incorporated into one large rural initiative. I would suggest that the theme for this package of legislation be "Fairness to Rural Areas." For too long rural areas have been forced to swallow unequal treatment by Federal policies. It is time to demand equity in Federal funding to rural areas.

That the Agriculture Committee has initiated a series of these hearings on rural development is a great start. In the coming weeks, I plan to continue my rural research work on programs under the jurisdiction of my committees, Public Works and Transportation as well as Small Business. I will also continue to promote fairness to rural America.

I look forward to working even more closely with you in the upcoming months, and I might add that if you would like to continue to show your support for a comprehensive legislative package to assist rural areas you may want to join both Congressman Hamilton and myself in cosponsoring House Concurrent Resolution 140, the Rural Development Initiative resolution.

Thank you again for this opportunity to appear before your subcommittee.

[The prepared statement of Mr. Upton appears at the conclusion of the hearing.]

Mr. ENGLISH. Fred, we appreciate it very much, and thank you for your testimony. It was outstanding testimony, and I think you made some excellent points. We are going to be looking forward to working with you and certainly the Small Business Committee. I know Ike Skelton is also a member, of course, of that committee. That plays a very important role as far as rural communities are concerned—Small Business—and Public Works obviously has a major role to play. So we think that you are certainly critically positioned so that you can offer some good assistance not only from the committee standpoint but also recommendations as far as this committee is concerned.

So we appreciate your testimony, and we are going to be looking forward to working with you.

Mr. UPTON. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you.

That concludes our testimony for today. With that, we will recess, subject to the call of the Chair. Thank you very much.

[Whereupon, at 3 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of Congressman Mike Synar
before the
Subcommittee on Conservation, Credit, and Rural Development
June 5, 1989

Imagine a company town after the company has gone bankrupt -- no jobs, no money, no reason to stick around. Young families move on to new towns where there are jobs, sapping much of the economic and human potential of the community.

In rural America, where 25% of our citizens live, the economic failure of the local hospital or clinic, or the departure of the local doctor can create the same human isolation and economic deterioration facing a bankrupt company town.

When we lose our hospitals, we lose not only access to acute care, but nursing care, home health care, physicians' care, jobs, and the ability to attract new businesses and industries to our communities.

Affordable, accessible health care is vital to keeping rural communities healthy both physically and fiscally. Presently, however, the vital signs are not good:

o Nationwide, more than 160 rural hospitals have closed since 1980, and more than 600 are in danger. Nearly two-thirds of all rural hospitals are operating in the red, according to the American Hospital Association.

o Nationally, we have a shortage of almost 1,800 rural primary care providers, and as many as 25% of rural physicians may retire or leave their communities within the next five years.

o Rural areas account for 73% of health manpower shortage areas, with a ratio of 3500 people to each primary care doctor.

Several factors are contributing to this health care crisis. They include the shrinking populations and recent economic problems of rural areas and the higher concentrations of uninsured and poor people in those areas. Rural communities are caught in a catch-22 situation: with shrinking tax bases and reduced assistance from the federal government they are unable to provide new services let alone maintain existing ones and, without good health care systems new industry will not locate in rural areas.

Of significance is the fact that the federal government's Medicare reimbursement policies discriminate against rural areas. On average, payments received by rural hospitals are 30% smaller than payments received by urban hopsitals for providing the same medical service. Rural doctors receive 40% smaller payments, on average.

This inequity is compounded by the fact that Medicare revenue is more important to rural hospitals and doctors. While the elderly comprise 12% of the general population in the United States, they account for more than 25% of the rural population. Therefore, a larger proportion of the patients served by rural facilities are covered by Medicare.

The Rural Health Care Coalition, of which I am co-chairman together with my colleague from Iowa Tom Tauke, has been working hard to enact health policy changes that will improve access to community based health care in rural areas. The Coalition has been successful. We've managed to incorporate rural health initiatives into virtually every piece of health care legislation that has moved through the Congress including authorizations for loan repayment programs for physicians, nurses and other health professionals; creation of an office of rural health policy; changes in Medicare reimbursement favoring rural hospitals; and, a Medicare bonus for rural physicians.

The Coalition is continuing its efforts this Congress. Earlier this year we introduced a package of legislation. None of the bills have been referred to the Agriculture Committee but your interest is important and timely nonetheless. Attacking the problems of rural areas whether they be health care, economic development, or housing will take the coordinated efforts of every committee with jurisdiction.

TIMOTHY J. PENNY

SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

JUNE 6, 1989

Mr. Chairman, thank you for holding this important hearing on rural development, and thank you for allowing me to submit this testimony today.

There is no doubt among any of us on the Agriculture Committee that there are needs and potentials that are not being met in rural America today. How we respond brings forth an abundance of ideas and proposals and often conflicting advice. At the outset, this hearing process should review both what is needed and what is now being done for economic and human development in our rural areas.

In spite of the many differences that can be found among rural areas in the United States, I think that two main themes will emerge from these hearings: that our rural areas suffer from a lack of capital for small and medium-sized business development, and that our rural infrastructure is crumbling beneath us.

I think this subcommittee must look at how to get the "most bang for the buck" in rural development programs to address these problems. To me that means utilizing existing cooperatives, businesses, and development organizations in the most efficient ways possible. To maintain the rural community tax base, we must keep people in rural areas, and to accomplish that we have to create new jobs in rural areas. New jobs mean economic diversification and that requires business financing.

The question is, how can the public and private sectors make affordable capital available to small communities? Limited public capital can be used to leverage private capital with the federal government providing incentives such as loan guarantees or revolving loan funds to reduce the risk in rural development investment.

To increase investment in infrastructure maintenance and telecommunications modernization, for example, we should be looking at the Rural Electrification Administration (REA) as an existing institution with hundreds of associated rural electric cooperatives that could be more involved in these activities. Grass-roots organizations like rural electric cooperatives know the needs of their communities, and are best situated to carry out local development projects.

Economic diversification should include agricultural diversification. We should be providing our agricultural producers incentives to produce new crops, including so-called "industrial crops," as well as assisting businesses to invest in the commercialization of new products from our agricultural commodities. For example, Senator Kent Conrad of North Dakota and I have re-introduced legislation that would create an Agricultural Research Commercialization Corporation (ARCC) within the U.S. Department of Agriculture. ARCC would provide targeted financial assistance for the commercialization of selected new products through repayable grants and loan guarantees.

Priority would be given to commercialization proposals which include financial support from state and local governments and private industry. I feel that the establishment of a partnership between the private and public sectors to develop and commercialize new agricultural products will ensure that federal dollars spent on agricultural research will yield the highest return for the American economy. In addition, new products will give farmers additional markets for their crops and strengthen their financial situation.

I believe ARCC is just one example of the way in which the private and public sectors can cooperate to create new jobs and stimulate economic activity in small communities by bringing small and medium-sized businesses back into rural areas.

I look forward to the ideas for rural development that will be presented here during the course of these hearings. I expect the subcommittee will have ample material to work with as we put together a rural development package this year. And, I am confident that we will see many of those same ideas being put into practice in the near future.

STATEMENT OF
THE HONORABLE DAN GLICKMAN (D-KS), CHAIRMAN
WHEAT, SOYBEANS, AND FEED GRAINS SUBCOMMITTEE

BEFORE A PUBLIC HEARING OF THE
CONSERVATION, CREDIT, AND RURAL DEVELOPMENT SUBCOMMITTEE
TO REVIEW
RURAL ECONOMIC DEVELOPMENT

10:00 AM, TUESDAY, JUNE 6, 1989
ROOM 1302, LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D. C.

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: I want to commend you for holding today's hearings and for scheduling a series of hearings on what I believe to be one of our nation's, and this Committee's, most pressing problems. I have a specific proposal to bring to your attention, one which I intend to develop into legislation, and one which I believe should be an integral feature of the rural development initiative I hope this Congress enacts: the creation of a national rural development bank.

Many economic indicators are positive and up-beat. Unemployment remains relatively low, business investment are up, exports are up, the stock market is trading higher and briskly in recent days, and there is some belief that the rate of inflation may ease somewhat in coming months.

It is, however, a peculiar kind of economic recovery and growth we have witnessed this decade. It is peculiarly bicoastal, centered on our two seaboards, and urban. While urban America has prospered with the development of the last decade and the growth of the service economy, rural America has not.

In fact, in spite of popular beliefs, the incidence of poverty is far more serious in rural America than in urban areas; more than one-fourth of our nation's poor persons resides in rural areas. Unemployment in rural areas exceeds the rate in urban areas by nearly twenty percent. Perhaps one of the most startling of all indicators of the health of the rural economy is the fact that nearly one-half a million rural residents have been moving to urban areas in this decade, a rate far in excess of the rates witnessed in the 1950s and 1960s.

For fifty years, commodity programs have been the primary engine of rural economic development, and to be sure, they will always play a vital role in keeping rural America strong. However, we must expand our efforts and look beyond these traditional approaches. Unlike urban America whose recent growth has been fueled by the growth of the service economy, many rural areas of the country still depend on manufacturing, mining, and other natural-resource businesses. They are capital-intensive industries, and to survive and grow, they depend on a strong infrastructure, financed by ample supplies of affordable credit.

Mr. Chairman, I propose that we create a national rural development bank to focus and lead efforts of the federal government to provide this financing. This entity will centralize, will bring together, the many existing financing and lending programs of the federal government and will establish a new priority of lending for rural infrastructure needs.

Today, when it looks to Washington for assistance, rural America must sort through a maze of different federal programs, administered by as many different federal entities. The Small Business Administration, the Rural Electrification Administration, the Economic Development Administration, the Department of Housing and Urban Development, and of course, the Farmers Home Administration all have a role in channeling federal financing assistance to rural entities.

Unfortunately, not only does this panoply of federal entities cause confusion and complexity, the different agencies often have their own agendas which may frequently conflict with one another. While all of them share some responsibilities for rural-related activities, none of them have a primary responsibility for overall financing of rural growth opportunities.

A new rural development bank encompassing these programs will bring focus and purpose to this structure.

It will do much more. As established as part of the federal Farm Credit System, which has decades of experience in meeting the financing needs of rural citizens, this new entity can provide long-term economic assistance to the investments upon which the private sector can build.

I believe that we should authorize the Farm Credit System to lend to state and other local units of government for local economic development projects. In this manner, I believe the federal government will be able to maintain maximum leverage for a minor commitment of resources in promoting growth. Eligible projects should include such things as water and sewer system improvements, the establishment and improvement of industrial parks, and the maintenance of vital public utilities and transportation systems.

I am convinced that unless business can be assured that the infrastructure upon which their operations depend will be maintained and upgraded, they will either leave rural areas or refuse to locate in rural areas. With falling levels of direct federal grants for such projects and the gradual elimination and diminution of such financing methods as tax-exempt industrial development bonds, the long-term financing needed in rural America is in jeopardy.

We have a reservoir of expertise in lending to rural America presently. However, it is diffused across the government and, in the case of the Farm Credit System, is restrained from lending for such projects by statute. We can correct those deficiencies: We can centralize and focus our efforts; we can create new financing mechanisms through this proposal; and we can marry the best of private sector expertise and a long-term commitment by the federal government to provide a stable source of financing to the projects needed to ensure growth into the next century in rural America.

I am convinced that the development of new technologies will spark a renewed interest in rural America. As our cities become larger and larger and more crowded and as technology develops which no longer forces individuals to live in urban areas to do their jobs, the quality of life in rural America will begin drawing population back to it. Provided that we have prepared the way by ensuring adequate economic opportunities for businesses and for our citizens.

While the rebirth and development of rural America will, in many respects, depend on the economic attractiveness of investing there and will depend on market forces, we must ensure that rural Americans have at their disposal the financing tools to be competitive with urban America and that the financing for such development is not biased against rural America.

I believe the federal government has an appropriate role to play in helping with this revitalization. It is also uniquely situated, of all entities in this country, to provide the central focus and stable financing needed to bring this revitalization about. A new rural development bank can be the force in this process and I would urge you to give it your most serious consideration.

Thank you.

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CONGRESSMAN CHARLES HATCHER (D-GA)

OPENING TESTIMONY

SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT

OPENING HEARING ON RURAL DEVELOPMENT LEGISLATION

JUNE 6, 1989

THANK YOU. MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO TESTIFY BEFORE YOUR SUBCOMMITTEE THIS MORNING. IT IS AN HONOR TO WORK WITH YOU AS OUR COMMITTEE BEGINS TO ADDRESS THE PROBLEMS IN RURAL AMERICA.

I GREW UP IN A SMALL SOUTH GEORGIA TOWN AND ABOUT ONE-HALF OF MY CONSTITUENTS LIVE IN RURAL COMMUNITIES. MY FAMILY AND I STILL RESIDE IN BAKER COUNTY IN SOUTH GEORGIA -- I TRAVEL BACK TO MY DISTRICT

EVERY WEEKEND WHEN THE HOUSE IS IN SESSION. I AM THEREFORE ABLE TO MAINTAIN A CONSTANT DIALOGUE WITH MY CONSTITUENTS ABOUT THE PROBLEMS RURAL AMERICA FACES.

IN PREPARING FOR THIS TESTIMONY I MADE AN EFFORT TO TALK WITH MANY OF MY FRIENDS IN THE DISTRICT THAT ARE INVOLVED IN IMPLEMENTING FEDERAL, STATE AND LOCAL PROGRAMS GEARED TOWARD RURAL DEVELOPMENT. DESPITE THE NUMBER OF COMMENTS THAT I RECEIVED, THE SUGGESTIONS FOCUSED ON A FEW FUNDAMENTAL PROBLEMS: THE MIGRATION OF YOUTH FROM RURAL TO URBAN AREAS, THE LACK OF FUNDS FOR LOCAL ECONOMIC DEVELOPMENT EFFORTS, THE NEED TO IMPROVE RURAL SCHOOLS IN ORDER TO DEVELOP A BETTER EDUCATED AND SEMI-SKILLED WORKFORCE, AND THE NEED FOR GREATER LENDING FLEXIBILITY FROM FINANCIAL INSTITUTIONS FOR FACILITATING BUSINESS LOANS IN RURAL AREAS.

CONSIDERING THE SCOPE OF THESE PROBLEMS, I AM CONVINCED THAT FEDERAL RURAL DEVELOPMENT POLICY TRANSCENDS THE NARROW JURISDICTION OF THE HOUSE AGRICULTURE COMMITTEE REGARDING PROGRAMS THAT IMPACT RURAL AMERICA I WOULD LIKE TO MENTION A FEW EXAMPLES OF PROGRAMS PRESENTLY BEING CONSIDERED IN OTHER COMMITTEES THAT WE CANNOT AFFORD

TO IGNORE AS WE WORK TOWARD EFFECTIVE RURAL DEVELOPMENT LEGISLATION.

THERE ARE 225 RURAL HOSPITALS IN THE COUNTRY THAT ARE SCHEDULED TO LOSE THEIR DESIGNATION AS "RURAL REFERRAL CENTERS" ON SEPTEMBER 30, 1989, UNDER THE MEDICARE REIMBURSEMENT PROGRAM. THE RURAL REFERRAL CENTER PROVISION PROVIDES ADDITIONAL FUNDS TO THESE HOSPITALS THAT ACT AS REGIONAL CENTERS FOR PATIENTS TRANSFERRED FROM OTHER HOSPITALS. WE ALL ARE FAMILIAR WITH THE PROBLEMS RURAL AREAS HAVE ALREADY EXPERIENCED WITH HEALTH CARE DELIVERY. THE SUNSET OF THIS PROVISION MEANS THAT THESE HOSPITALS WILL LOSE APPROXIMATELY $1 MILLION EACH IN REIMBURSEMENT FUNDS OVER THE NEXT FISCAL YEAR. WE MUST ACT COLLECTIVELY TO ENCOURAGE OUR COLLEAGUES ON THE WAYS AND MEANS COMMITTEE TO INCLUDE AN EXTENSION OF THIS PROVISION IN THE RECONCILIATION MEASURE. WITHOUT EXTENSION OF THIS PROVISION, OUR PROBLEMS WITH RURAL HEALTH CARE WILL BE COMPOUNDED DRASTICALLY.

AS THE INFRASTRUCTURE NEEDS OF RURAL AREAS ARE CONSIDERED, WE MUST RECOGNIZE THE IMPORTANT ROLE OF TAX-EXEMPT BOND FINANCING FOR MUNICIPAL PROJECTS AND BUSINESS EXPANSION EFFORTS. UNFORTUNATELY, THE TAX-EXEMPT STATUS OF THESE FINANCING MECHANISMS IS NO LONGER

SACRED AS THE CONGRESS IS FORCED TO FIND ADDITIONAL SOURCES OF REVENUE. IN PARTICULAR, THE SMALL ISSUE INDUSTRIAL DEVELOPMENT REVENUE BOND (SIDB) PROGRAM FACES A SUNSET AT THE END OF THIS YEAR. THIS PROGRAM HAS MADE AN EFFECTIVE FEDERAL CONTRIBUTION TO ECONOMIC DEVELOPMENT EFFORTS IN BOTH URBAN AND RURAL AREAS. GOVERNOR WALLACE WILKINSON OF KENTUCKY RECENTLY REMARKED THAT "THERE IS NO FINANCING TOOL MORE IMPORTANT TO RURAL DEVELOPMENT THAN THE SIDB BOND PROGRAM." EXTENSION OF THIS PROGRAM IS ONE OF MY LEGISLATIVE PRIORITIES DURING THE COMING MONTHS.

I BELIEVE THERE ARE A NUMBER OF PROGRAMS ALREADY IN PLACE THAT ADDRESS DEVELOPMENT NEEDS THAT MIGHT BE STREAMLINED IN ORDER TO TARGET RURAL AREAS MORE EFFECTIVELY. FOR EXAMPLE, REPRESENTATIVE MCDADE HAS INTRODUCED THE RURAL HOUSING IMPROVEMENT ACT, A MEASURE THAT CREATES NEW AUTHORITY UNDER SECTION 502 OF THE FMHA PROGRAM IN ORDER TO PROVIDE HOME MORTGAGE LOAN GUARANTEES TO RURAL RESIDENTS. THIS BILL, PENDING BEFORE THE BANKING COMMITTEE, ADDRESSES THE LACK OF SOURCES OF MORTGAGE FINANCING FOR LOW AND MODERATE INCOME RURAL RESIDENTS.

I AM PLEASED THAT SENATOR GEORGE MITCHELL RECENTLY ESTABLISHED A SENATE TASK FORCE ON RURAL DEVELOPMENT IN ORDER TO TAKE A BROAD APPROACH IN ADDRESSING RURAL PROBLEMS. IN ADDITION, THE BUSH ADMINISTRATION RECENTLY ANNOUNCED THE CREATION OF A WORKING GROUP ON RURAL DEVELOPMENT TO BE CHAIRED BY SECRETARY YEUTTER. THE GROUP INCLUDES USDA, TREASURY, COMMERCE, LABOR, HHS, HUD, TRANSPORTATION AND EDUCATION, OMB, THE COUNCIL OF ECONOMIC ADVISERS, SBA AND THE WHITE HOUSE OFFICE OF POLICY DEVELOPMENT. THIS IS AN IMPRESSIVE CROSS-SECTION OF KEY ADMINISTRATION OFFICES WORKING TOGETHER TO ASSIST RURAL COMMUNITIES. THIS PROCESS OF COALITION BUILDING ACROSS JURISDICTIONAL LINES IS ESSENTIAL FOR EFFECTIVELY DEFINING AND TACKLING THE PROBLEMS IN RURAL AMERICA.

I AM CONVINCED THAT THE HOUSE ALSO MUST TAKE A COMPREHENSIVE APPROACH IN FORMULATING RURAL DEVELOPMENT POLICY. IT IS IMPORTANT THAT THE AGRICULTURE COMMITTEE FOLLOW THE EXAMPLE SET BY THE SENATE AND THE ADMINISTRATION IN FORGING A PARTNERSHIP WITH OTHER COMMITTEES THAT HAVE JURISDICTION OVER LEGISLATION THAT ADDRESSES RURAL CONCERNS. IT IS CLEAR THAT THE 1990 FARM BILL IS THE ONLY REALISTIC LEGISLATIVE VEHICLE FOR RURAL DEVELOPMENT POLICY IN THE HOUSE THIS

YEAR. BUT WE MUST ALSO WORK COLLECTIVELY TO INFLUENCE AND PROMOTE LEGISLATION BEFORE OTHER COMMITTEES THAT IMPACTS RURAL COMMUNITIES. IN SHORT, THE RURAL DEVELOPMENT PROVISIONS IN THE 1990 FARM BILL WILL BE ONLY A PORTION OF FEDERAL POLICY THAT MIGHT MAKE OR BREAK RURAL AMERICA DURING THE COMING YEAR.

THE AGRICULTURE COMMITTEE CERTAINLY HAS THE MOST IMPORTANT ROLE IN INITIATING COMPREHENSIVE LEGISLATION THAT TRANSCENDS THE NORMAL BOUNDARIES OF COMMITTEE JURISDICTIONS IN THE HOUSE. WITHIH THE JURISDICTION OF THE AGRICULTURE COMMITTEE WE STILL HAVE A SUBSTANTIAL CONTRIBUTION TO MAKE, BUT HERE WE MUST ALSO REACH ACROSS JURISDICTIONAL LINES.

AS CHAIRMAN OF THE SUBCOMMITTEE ON DOMESTIC MARKETING, CONSUMER RELATIONS AND NUTRITION, I AM INTERESTED IN EXPLORING WAYS TO MAKE THE FOOD STAMP PROGRAM MORE RESPONSIVE TO THE UNIQUE NEEDS OF POOR PEOPLE IN RURAL COMMUNITIES. THE POOR IN RURAL AMERICA ARE MORE LIKELY THAN THE URBAN POOR TO LIVE IN TWO-PARENT FAMILIES AND TO WORK. THESE ARE PROUD, HARD-WORKING FAMILIES FACING PARTICULAR HARDSHIPS DUE TO THE NATURE OF THE COMMUNITY IN WHICH THEY LIVE.

IT IS HARD TO REMEMBER THAT THE FOOD STAMP PROGRAM BEGAN IN THE EARLY 1960'S AS A RESULT OF THE CONCERNS FOR THE PLIGHT OF THE RURAL POOR. THE RURAL POOR SEEM TO HAVE BEEN FORGOTTEN AS THE PROGRAM HAS EVOLVED OVER THE YEARS. I WANT TO WORK WITH YOU TO DEVELOP THESE RURAL DEVELOPMENT PROVISIONS FOR THE FARM BILL, BOTH TO ASSURE AN ADEQUATE DIET THROUGH A FOOD STAMP PROGRAM THAT IS SUPPORTIVE AND RESPONSIVE TO THE PECULIAR PROBLEMS FACED BY RURAL AMERICANS, AND TO INTEGRATE THE FOOD STAMP PROGRAM WITH RURAL DEVELOPMENT ECONOMIC POLICIES.

THREE WEEKS AGO, AT OUR HEARING ON RURAL HUNGER IN AMERICA, WE HEARD HOW TRANSPORTATION DIFFICULTIES ARE OFTEN RESPONSIBLE FOR PEOPLE NOT PARTICIPATING IN THE FOOD STAMP PROGRAM IN RURAL AREAS. IT IS DIFFICULT TO GET TO AND FROM THE FOOD STAMP OFFICE TO APPLY FOR FOOD STAMPS, AND OFTEN APPLICANTS MUST MAKE MORE THAN ONE TRIP TO COMPLETE THE APPLICATION. IN MANY RURAL AREAS, FOOD STAMPS ARE NOT MAILED, BUT MUST BE PICKED UP, NECESSITATING ANOTHER POSSIBLY LENGTHY AND EXPENSIVE TRIP. IN ADDITION, TRANSPORTATION COSTS OFTEN REDUCE THE FOOD PURCHASING POWER OF RURAL HOUSEHOLDS. I BELIEVE THAT THE

FOOD STAMP APPLICATION PROCESS CAN BE MADE MORE ACCESSIBLE TO THE RURAL POOR. WE MUST LOOK CAREFULLY AT BOTH PROCEDURAL BARRIERS TO PARTICIPATION AND ELIGIBILITY RULES, SUCH AS THOSE FOR VEHICLES, THAT DO NOT TAKE INTO ACCOUNT THE UNIQUE CIRCUMSTANCES OF THE RURAL POOR.

MR. CHAIRMAN, YOU AND I HAVE LEARNED THAT TYPICALLY THERE ARE FEWER EMPLOYMENT OPPORTUNITIES IN RURAL LOCATIONS THAN IN METROPOLITAN AREAS. AS A RESULT, DIFFERENT APPROACHES IN DEVELOPING EMPLOYMENT OPTIONS AND TRAINING PROGRAMS ARE NEEDED IN RURAL COMMUNITIES. BECAUSE OF THESE CHALLENGES, STATES ARE LESS INCLINED TO DEVELOP EMPLOYMENT AND TRAINING ACTIVITIES FOR FOOD STAMP RECIPIENTS IN RURAL AREAS. YET THERE IS A GREAT NEED FOR THESE TYPES OF SERVICES IN THAT PART OF AMERICA THAT HAS A HIGH RATE OF ILLITERACY AND UNSKILLED LABOR. STATES SHOULD BE ENCOURAGED TO EXPAND THEIR EMPLOYMENT AND JOB-TRAINING EFFORTS IN RURAL AREAS. I WOULD BE INTERESTED IN EXPLORING METHODS TO LINK FOOD STAMP EMPLOYMENT AND TRAINING ACTIVITIES WITH OTHER INITIATIVES IN A RURAL DEVLOPMENT LEGISLATIVE PACKAGE.

THE SECOND CONGRESSIONAL DISTRICT IS A MICROCOSM OF THE PROBLEMS

OF RURAL AMERICA IN GENERAL: MY DISTRICT HAS A HIGHER PERCENTAGE OF UNEMPLOYMENT THAN ANY OTHER DISTRICT IN THE STATE; THE AVERAGE ANNUAL HOUSEHOLD INCOME IS JUST OVER $15,000; AND ONLY ONE-HALF OF MY CONSTITUENTS HAVE A HIGH SCHOOL DEGREE.

DESPITE HANDICAPS SUCH AS THESE ALL OVER RURAL AMERICA, OUR PART OF THE COUNTRY IS STILL HOME TO 62 MILLION PEOPLE. RURAL AREAS ARE NOT ONLY RICH IN NATURAL RESOURCES, BUT IN CULTURE, VALUES AND CHARACTER AS WELL.

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY. I LOOK FORWARD TO WORKING WITH YOU AS YOU SEEK WAYS TO STRENGTHEN THE ECONOMY OF RURAL AMERICA AND IMPROVE THE LIVES OF THOSE LIVING IN OUR RURAL COMMUNITIES.

Testimony of
REPRESENTATIVE CHARLES STENHOLM
Before the
SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT
June 6, 1989

Mr. Chairman, I appreciate the opportunity to appear before this subcommittee today to discuss an issue of great importance to so many of us: comprehensive rural development. I commend the Subcommittee for addressing the subject and I look forward to passage of meaningful legislation in this arena by the full Committee and ultimately by the entire Congress.

I believe it will become increasingly evident to all of us this month as you continue your series of hearings that successful rural development policy must be approached from a wide variety of fronts simultaneously. Like so many cogs affecting each other and, in the end, affecting the production of an entire large machine, a positive rural environment is dependent on numerous sectors working effectively with each other.

Each element of the rural community--employment, education, health care, social services, communications--must be examined both as a separate entity and with an eye to its role as part of the larger system.

HEALTH SERVICES AS PART OF RURAL DEVELOPMENT

The element on which I would like to focus today is that of rural health care. Health services in themselves, regardless of whether they are provided in rural or urban areas, hold a unique position because of the vital issues of life and death which they involve. Beyond that innate importance, however, health services must be considered part of rural economic development because 1)the services themselves are sources of employment and 2)the existance of the services is imperative if a community is to attract and retain other business and community residents.

Frequently, a rural hospital is the largest employer in a community and much of the employment is generated by income that does not already exist within the community (e.g. importing Medicare revenues or dollars for drug rehabilitation). At least equally important, if not more so, is the reality that without quality medical services, outmigration of residents inevitably occurs and immigration of new community residents and businesses is virtually non-existent.

Fortunately, through the unflagging efforts of a great many dedicated people, rural health has become a "front-burner issue" during the past two years. The efforts of the Rural Health Care Coalition here in the House of Representatives have been rewarded with considerable success. The primary health committees of this body, Energy & Commerce and Ways & Means, are right now engaged in important deliberations concerning hospital reimbursement and personnel shortage issues. I am most hopeful that in those appropriate arenas, some additional relief will be delivered to rural communities again this year.

Unfortunately, the threatening alarm that more rural Americans will soon be without health care continues to sound. In response, numerous legislative proposals to help rural hospitals stay open, attract health professionals to rural areas and reinforce emergency care systems are being discussed as partial solutions. Without duplicating these efforts, however, I would like to offer a new proposal whose proper home, I believe, is within a rural development effort.

Anyone who conducts even a minor survey of current efforts to improve rural health services today cannot help but feel a great sense of optimism and encouragement. Those things which have always made rural people outstanding -- self-determination, creativity, persistence, frugality, genuine caring and commitment -- have never been more evident than within those people who are today trying to improve rural health care.

Pat Hart's leadership at the National Rural Health Association, Kevin Fickenscher's energetic creativity at North Dakota's Office of Rural Health, Jim Bob Brame's field hearings all across the state of Texas, Sam Cordes' vital efforts at the University of Wyoming, Harvey Licht's work to find physicians for New Mexico's rural minority populations, coordinating efforts by the folks in Rockville at the Office of Rural Health Policy -- for these people, working to improve rural health care isn't a job; it's their life.

CONTINUING NEEDS

But when asked, these same people will also tell you about some of the brick walls which they all encounter in their efforts. They tell you about the wealth of information which never gets shared because there is an inadequate network of communication from state to state or from state to federal government. They tell you about wasted leadership potential in communities because there are not resources to develop those leaders. They tell you about the frustration of having to say "no" to communities asking for technical assistance on a grant proposal or physician recruitment efforts because there simply isn't sufficient staff to respond. And they tell you about how little money really would be necessary to make a tremendous difference.

Seventeen states across the Country which have created an office or other focal point for rural health and in doing so, have given themselves noticeable advantage in serving the health needs of their rural citizens. Unfortunately, in too many states these needs are not being met at all or are being inadequately met.

GRANT MONEY FOR STATE OFFICES OF RURAL HEALTH

For these reasons, I propose that the Agriculture Committee's Rural Development Initiative include authorization for a matching grant program encouraging states to establish Offices of Rural Health. The establishment of these State Offices of Rural Health would 1)raise an awareness across the Country of the need to address rural health issues; 2)help to integrate state, federal and private sector activities; 3)encourage the development and sharing of innovative solutions for improving access to quality care in rural communities; and 4)allow states to provide communities desparately needed information on sources of assistance.

Because rural problems are not uniform, but rather, have many unique local and regional dimensions which each state office should address, the grant would give discretion to each state as to whether the appropriate locale of the office should be a state agency, educational institution, private contracting organization, or some combination thereof.

In what I found to be amazingly refreshing in a place where $50 million is usually represented by an asterisk (*), I have found a terrific amount of support for my proposal which would cost less than one-tenth of an asterisk for next year. Total funding for the three-year, decreasing grant program would amount to $3.75 million in fiscal year 1990, $2.5 million in 1991, and $1.25 million in 1992 -- a grand total of $7.5 million over three years. Each recipient state would be required to match 1-to-1 the maximum $75,000, $50,000 and $25,000 for each of the three years respectively if they are to receive the federal dollars.

Administration of the program would be through the already existing Federal Office of Rural Health Policy within the Department of Health and Human Services.

STATE OFFICE ACTIVITIES

While a considerable amount of leeway would be granted each state office to respond to local rural health needs, several requirements would be made of the offices. First, they would be required to coordinate and cooperate with the efforts of the agriculture extension services now dealing with rural development. Secondly, they would have as a continuing guideline the requirement to examine and make recommendations on improving the cost effectiveness of quality rural health care delivery. Furthermore, they would be required to communicate and coordinate their efforts not only with the federal office, but also with other state offices.

Additional activities of the state offices could include technical assistance to communities in efforts such as physician recruitment, leadership development, exploration of creative transportation and communication technology with regard to access to health care, and development of plans for transition opportunities for community health care systems. I have no doubt that the creative minds out across the Country will be able to come up with a great number of other constructive activities for these state offices.

In the absence of completed legislative language at this time, I would like to have included in the record at this time a summary of my proposal for matching grant funds for state offices of rural health.

In conclusion, Mr. Chairman, I again express my appreciation to you for allowing me to appear before you here today and I request your consideration of my grant proposal concept as part of the health piece of your rural development bill.

(Attachment follows:)

STENHOLM Proposal:

Matching Grant Program for
STATE OFFICES OF RURAL HEALTH

PURPOSE: To encourage states to establish Offices of Rural Health. Each state may determine the appropriate locale of the office: state agency, educational institution, private contracting organization, or some combination thereof. Within the general requirements listed below, states will have considerable latitude in administering the program based on individual state rural health situations.

GOALS:
1)To raise an awareness across the Country of the need to address rural health issues;
2)To help integrate federal, state and private sector activities relating to rural health;
3)To encourage the development and sharing of innovative solutions for improving access to quality care in rural communities;
4)To enable states to fulfill a need for information clearinghouses within their areas.

STATUTE: Amend Section 711 of the Social Security Act (42 U.S.C. 912(a))

LEGISLATION: Seeking inclusion within a larger Rural Development Initiative of the House Agriculture Committee. Sequential referral likely.

AUTHORIZED FUNDING: $7.5 million over three years; Required 1-to-1 match by recipient states
FY 90 - $3.75 million; maximum $75,000 per state
FY 91 - $2.5 million; maximum $50,000 per state
FY 92 - $1.25 million; maximum $25,000 per state

ADMINISTRATION: Administered through the Federal Office of Rural Health Policy within the Department of Health and Human Services

REQUIREMENTS:

a. Coordinate and cooperate with the efforts of the agriculture extension service now dealing with rural development.
b. Examine and make recommendations on improving the cost effectiveness of quality rural health care delivery.
c. Report regularly to the federal Office of Rural Health Policy.
d. Representatives from each state Office, along with representatives from the Federal office, must meet together at least annually to share information and coordinate strategies for improved, cost effective delivery of health care in rural areas.
e. Communicate and cooperate with the five established rural research centers.
f. Provide leadership and advocacy for rural residents with regard to rural health.

ADDITIONAL POSSIBLE ACTIVITIES:

a. Developing and implementing plans for transition opportunities for community health care systems.
b. Planning and assisting in professional recruitment and retention.
c. Improving community involvement in health care delivery, including conducting leadership development of community members.
d. Improving rural emergency medical plans.
e. Developing creative transportation and communication technology plans with regard to access to health care.
f. Engaging in policy analysis, policy development and economic impact studies.
g. Establishing information clearinghouses, including computerized "bulletin boards" for easy access to and sharing of information regarding rural health care.
h. Data collection and evaluation on current rural health conditions and needs.

**While research and data collection and dissemination would be valid uses of this grant money by the state Offices, greater emphasis must be placed on service or technical assistance to rural communities. A maximum of 20 percent of the federal grant money may be spent for research activities.

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WAYS AND MEANS COMMITTEE

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**TESTIMONY OF
THE HONORABLE BYRON L. DORGAN
BEFORE THE HOUSE SUBCOMMITTEE ON CONSERVATION,
CREDIT AND RURAL DEVELOPMENT
JUNE 6, 1989**

Mr. Chairman and members of the subcommittee, I am pleased to address you today on a subject that is of utmost importance to this nation and to my constituents -- rural development. As you know, rural America has not shared in the economic recovery of the 1980's. Instead, much of rural America has suffered through a prolonged recession caused by the decline in agricultural prices and, for the energy producing states, the drop in oil prices. In addition to the pummeling brought about by these economic forces, rural America has also suffered at the hands of nature during last year's drought -- the worst since the dust bowl of the 1930's.

Much can be done to ameliorate the damage caused by these events but the most important long range solution is to develop the economy of rural America so that it is not dependent on such a narrow economic base. For too long, the well being of rural America has been viewed as solely dependent on the health of agriculture. Agriculture is and will remain vitally important to rural America. But if rural America is to prosper and become a viable part of the post-industrial economy we must diversify into other economic activities.

At the same time, the urban areas of our country confront their own problems. Chief among these is the congestion, pollution and spiralling costs associated with overdevelopment and overcrowding.

In Los Angeles, for example, where the average price for a home tops $200,000, they are now widening some freeways to accommodate six lanes in each direction (is it any wonder that the L.A. basin has the worst air quality in the nation?). Draconian measures are now under consideration to try to cope with the expected growth between now and the turn of the century.

Clearly, this uncontrolled growth must stop! The federal government can help to bring about a better balance of economic diversity in rural America and more manageable growth in urban America by working to stimulate rural development.

I am planning to introduce an omnibus rural development bill in the next several weeks. In this bill, I am proposing a four-pronged approach:

1. **Lets have an affirmative action strategy for rural America.** In order to help those groups in our society who have been left behind, the federal government actively seeks to assist minority firms by designating a share of federal contracts for these companies. Similarly, I propose that the Congress establish a rural content requirement for goods and services procured by the federal government.

This rural content requirement could be established as either a set-aside program for small contracts or as a percentage of subcontractors on a major contract. In either case, I would propose that the relevant proportion of rural content should be tied to the proportion of Americans living in rural communities -- about 15 to 20 percent in 1989. Much more needs to be defined to make this approach work but I feel this will result, over time, in a diversified, competitive rural subcontractor base that will provide a stable foundation for continued rural economic development.

2. **Require federal agencies that make grants and loans to foster general economic development to allocate at least a fair share of their funds to rural areas.** Again, this share should be tied to the percentage of Americans living in rural communities.

In a study done by the GAO for Mr. Coleman, the percentage of Small Business Administration loans and grants devoted to rural areas was often far below the fair percentage these areas should receive -- sometimes as low as 3% ! Assuring rural communities their fair share of these funds is the one way to increase the amount of development funds available in this years' tight budgetary climate.

Of course, I understand that some development funding is targeted at certain areas. But for those programs that are aimed to benefit the nation as a whole, rural America has the right to expect its fair share. Requiring agencies and Departments to monitor their allocations to rural areas and establishing a criteria for fund allocation is one way to assure that it gets it.

3. **Facilitate rural development through the use of Rural Development Investment Zones.** As you know, one recent proposal for restoring balance in the economy is to create urban enterprise zones. The weakness of this approach is that it leaves the rural depression untouched. A further weakness is that the notion of enterprise or investment zones is meaningless without tangible incentives to attract businesses.

We should put some meat on the bones of the enterprise zones idea with workable tax incentives and provisions for urban and rural investments.

In conjunction with my rural development bill, I am introducing the "Rural Development Investment Zone Act of 1989"; legislation that will provide greater economic opportunities for our nation's most economically distressed rural areas. It well help to level the national economic playing field, stimulate diversification, and recognize the explicit value of rural development.

My legislation will stimulate new business development in rural areas, and provide new and challenging employment for their residents. Of equal significance, anticipated expansion and diversification of businesses in these regions will reduce the impact of economic downturns in the future. This legislation complements the prior two proposals I have made today by facilitating the business development which the rural content requirement and rural fair share will help initiate.

First, my legislation authorizes the Secretary of the Treasury to designate development zones located in certain impoverished rural communities based upon the area's size, its degree of poverty and general economic distress.

Second, the legislation provides employment-related tax incentives to attract new businesses and to retain existing businesses within the nominated areas. The incentives include:

1. An employer tax credit of 10 percent for increased spending on qualified wages.
2. An investment tax credit of 10 percent on certain depreciable real property property used in a trade or business within a development investment zone.

Other investment provisions are:

- Waiver or modification of Treasury rules are permitted in certain circumstances in order to further job creation, community development and economic revitalization objectives of the zones.
- The Foreign Trade Board shall consider any application to establish a foreign trade zone within a development investment zone on a priority basis, and expedite processing.

The additional Federal assistance and tax incentives provided under the Act should result in incentives to diversified economic growth that is so desperately needed to improve the quality of life for residents in these areas.

4. **Lets redirect the Department of Agriculture to focus more directly on rural development.** In order to give proper attention to rural development at the highest level, I am proposing that the department name be changed to the U.S. Department of Agriculture and Rural Development. To insure that this will not merely be a meaningless name change, I am also proposing that the department establish an Undersecretary for Rural Development. This office will oversee the various rural development activities in the department through the Agency for Rural Development -- a new agency that will house the various development programs now located throughout the department.

In addition, the Agency for Rural Development will provide matching grants to states to foster rural development coordination and planning, encourage technology development in rural areas and establish revolving loan and venture capital fund pools. Finally, I would propose that we establish a Rural Advocacy Office to act on behalf of rural states, small communities and small businesses located in rural areas when seeking redress from onerous regulations or assistance in seeking government grants or contracts.

Mr. Chairman, this completes my testimony on rural development issues. I hope that you agree that it presents some fresh ideas on how to foster the broadening of the rural economy and I welcome any questions that you or the committee may have.

CONGRESSMAN IKE SKELTON
STATEMENT ON RURAL DEVELOPMENT
JUNE 6, 1989

MR. CHAIRMAN, I WANT TO THANK YOU FOR THIS OPPORTUNITY TO SPEAK TODAY. IT IS A PLEASURE TO GIVE SOME OF MY THOUGHTS ON A SUBJECT THAT IS VERY IMPORTANT TO ME, THE ECONOMIC DEVELOPMENT OF RURAL AMERICA.

WE ALL KNOW THE PROBLEMS THAT FACE RURAL AMERICA. AN AGING INFRASTRUCTURE, POOR HEALTH CARE DELIVERY THE "BRAIN DRAIN" OF OUR BRIGHTEST RURAL CITIZENS TO MORE POPULOUS AREAS, AND HIGH ENERGY AND TRANSPORTATION COSTS ARE JUST A FEW EXAMPLES OF WHAT OUR NON-URBAN AREAS ARE NOW EXPERIENCING. ALL OF THESE ARE ISSUES THAT MUST BE RESOLVED.

HOWEVER, I BELIEVE THE BEST INVESTMENT THAT THIS COUNTRY COULD MAKE WOULD BE IN A RURAL TECHNICAL INFORMATION INFRASTRUCTURE. WITH THIS INVESTMENT WILL COME THE FULL USE OF OUR NATION'S HUMAN CAPITAL. THE GREATEST RESOURCE THAT WE POSSESS IS THE HUMAN RESOURCE. IN THIS MODERN AGE OF RAPID INFORMATION OUTPUT AND RETRIEVAL, RURAL AMERICA MUST NOT FALL FURTHER BEHIND.

IN A MANUFACTURING AGE, RESOURCES LIKE MACHINERY ARE IMPORTANT, BUT THEIR WORTH DECREASES OVER TIME. IN AN INFORMATION AGE, PEOPLE TAKE ON AN INCREASINGLY CRITICAL ROLE. AND, PEOPLE, AS THEY COLLECT INFORMATION, MASTER THEIR JOBS AND AQUIRE NEW SKILLS, INCREASE IN VALUE WITH TIME.

INFORMATION AND EDUCATION WILL EMPOWER LOCAL LEADERSHIP AND BUSINESS TO OPERATE AT THEIR FULL CAPACITY. THE RAPID TRANSFERAL

OF INFORMATION WILL ASSIST AGRICULTURE AND INDUSTRY, STUDENTS AND SENIOR CITIZENS, SMALL BUSINESSES AND LOCAL GOVERNMENTS.

IN THIS ERA OF FIBER OPTICS, COMPUTERS AND SATELLITES WE CANNOT IGNORE THE POTENTIAL ADVANTAGES OF A STRONG RURAL COMMUNICATIONS AND INFORMATION SYSTEM. ALREADY THERE ARE SCHOOLS IN MISSOURI, MY HOME STATE, AND IN MANY OTHER STATES THAT CONNECT WITH UNIVERSITIES FOR FORIEGN LANGUAGE AND SCIENCE CLASSES. FORTY ADDITIONAL SATELLITE RECEIVING STATIONS ARE BEING INSTALLED AT OR NEAR COUNTY EXTENSION CENTERS AROUND MISSOURI. THIS WILL BRING TO FIFTY THE NUMBER OF EXTENSION CENTERS IN THE STATE WITH THE CAPABILITY OF RECEIVING A WIDE VARIETY OF EDUCATIONAL PROGRAMS VIA SATELLITE. THESE ARE JUST TWO EXAMPLES OF CURRENT TECHNOLOGY IN USE. AND, THESE EXAMPLES ALSO USE EXISTING SOURCES FOR THEIR INFORMATION, UNIVERSITIES AND THE STATE COOPERATIVE EXTENSION SYSTEM.

INFORMATION LINKAGE WILL ALSO ASSIST THE AVERAGE CITIZEN IN RURAL AREAS, PUTTING THEM IN CONTACT WITH ECONOMIC AND SOCIAL SERVICES ON THE FEDERAL, STATE AND LOCAL LEVELS. ONE OF THE PROBLEMS WITH DELIVERING ASSISTANCE AND SERVICES TO RURAL CITIZENS IS THAT MANY TIMES RESIDENTS EITHER DO NOT KNOW ABOUT EXISTING GOVERNMENT OR PRIVATE ASSISTANCE, OR THEY DO NOT HAVE THE CAPACITY TO CONNECT WITH THESE SERVICES. RURAL HOSPITALS WILL BE ABLE TO TRANSFER DATA, X-RAYS FOR EXAMPLE, TO QUICKLY CONSULT WITH SPECIALISTS IN EMERGENCY SITUATIONS.

THROUGH COMMUNICATIONS AND INFORMATION SYSTEMS, LOCAL GOVERNMENT AND COMMUNITY LEADERS CAN GAIN THE SAME RESOURCES THAT THRIVE IN OUR NATION'S URBAN CENTERS. LOCAL LEADERS WILL BE ABLE

TO EASILY OBTAIN THE KNOWLEDGE NEEDED TO MAKE THE BEST DECISIONS FOR THEIR COMMUNITY. WE ALL KNOW THAT LOCAL LEADERSHIP IS THE KEY TO THE DEVELOPMENT OF ANY COMMUNITY.

AND, MOST IMPORTANTLY, STATE-OF-THE-ART COMMUNICATIONS WILL ENHANCE THE GROWTH OF RURAL SMALL BUSINESSES. GROWTH IN SMALL BUSINESS CAN STIMULATE OVERALL ECONOMIC GROWTH. SMALL BUSINESSES, THOSE WITH 500 EMPLOYEES OR LESS, ARE SHOULDERING MOST OF THE BURDEN OF JOB CREATION AND INNOVATION, CREATING OVER SIXTY PERCENT OF THE NEW JOBS AND GENERATING NEARLY FORTY PERCENT OF THE GROSS NATIONAL PRODUCT. ALSO, THEY EMPLOY FIFTY-SIX PERCENT OF THE NON-METROPOLITAN WORKERS. RURAL COMMUNITIES NEED THE CAPABILITY FOR THEIR LOCAL BUSINESSES TO INTERACT WITH COMPANIES FOR WHICH SUBCONTRACTING CAN BE DONE, SOFTWARE THAT CAN PROVIDE DIRECTIONS FOR COMPUTERIZED EQUIPMENT, AND INFORMATION SOURCES THAT ALLOW BUSINESSES TO RESPOND TO NEW MARKET POSSIBILITIES.

SOME OPTIONS TO ENHANCE OUR HUMAN RESOURCE COULD INCLUDE FEDERAL COLLABORATION WITH STATE AND LOCAL AUTHORITIES TO UPGRADE THE PUBLIC INFORMATION INFRASTRUCTURE AS WELL AS BASIC AND VOCATIONAL EDUCATION. INCREASED FUNDING FOR CIVILIAN RESEARCH AND TECHNOLOGY DEVELOPMENT COULD BE PROVIDED. SUCH A STEP WOULD BE CONCERNED NOT ONLY WITH MANUFACTURING BUT ALSO THE SERVICE INDUSTRIES, WHICH CONSTITUTE THREE-QUARTERS OF THE NATION'S ECONOMY.

ONCE AGIAN, WE ARE TALKING ABOUT PEOPLE. WE ARE TALKING ABOUT EMPOWERING THE LOCAL COMMUNITY TO BUILD ITSELF IN THE WAY THEY SEE BEST. WE ARE TALKING ABOUT EDUCATING PERSONS OF ALL AGES AND AT ALL LEVELS. MOSTLY WE ARE TALKING ABOUT TAKING ADVANTAGE OF OUR COUNTRY'S GREATEST RESOURCE, ITS CITIZENS.

I WOULD LIKE TO ONCE AGAIN THANK THE CHAIRMAN AND MEMBERS OF THIS SUBCOMMITTEE FOR THIS CHANCE TO TESTIFY TODAY.

STATEMENT BY U.S. REPRESENTATIVE WES WATKINS

ON BEHALF OF H.R. 831,

THE RURAL DEVELOPMENT REORGANIZATION ACT OF 1989

BEFORE THE HOUSE AGRICULTURE SUBCOMMITTEE ON

CONSERVATION, CREDIT AND RURAL DEVELOPMENT

TUESDAY, JUNE 13, 1989

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today on behalf of H.R. 831, the Rural Development Reorganization Act of 1989.

Mr. Chairman, first, let me extend my congratulations to you, as a colleague from your home state of Oklahoma, on your new position at the helm of this subcommittee. With your capable leadership I sincerely believe that a comprehensive legislative package can be developed that will create off-farm jobs to help our small towns and communities survive. I'm excited about the possibility of such a package that could make a profound impact on rural America.

This legislation must be the "Marshall Plan" for rural America and as effective as the plan to rebuild Europe after World War II. The package must emphasize implementation of policies and not policy development alone and as a result of its passage create off-farm jobs.

Before I was elected to the Congress, I was a rural home builder and realtor. Before that, I organized and served as director of one of the first economic development districts in Oklahoma and the nation. I have two degrees in agriculture from the Oklahoma land-grant college. Before that I was a farmer and the son of a farmer where, when we had to go from Arkansas and Oklahoma to California during the early forties to find a job. These early trips on Route 66 in search of jobs made a lasting impression and has served as my motivation to create a revitalized rural America.

I have been working for rural economic development for the twelve years that I have served in the Congress and I can tell you that rural development changes do not come about overnight. Some of the seeds we planted in our district twelve years ago are only now coming to fruition.

I am a firm believer in regional development programs that not only deal with the creation of concepts for economic growth but the implementation of those policies. They have demonstrated time and time again their effectiveness to meeting the needs of rural areas. Regional planning and implementation directed at growth center towns and communities are key to the revitalization of rural America.

We must have the basics of infrastructure. First, we must maintain educational institutions and health care and have necessary transportation systems for industry to be interested in rural areas.

There must be investments made in rural growth center airports. I have found that chief executive officers who draw six-figure salaries must save time and need to fly directly to the town of their plant site. My experience has been that CEO's like to be within 15 to 30 minutes driving time of the industrial location.

We must invest in targeted industrial sites. No -- not a cow pasture concept but comprehensive locations that are geared to the needs that industry desires. Combined with this must be the underwriting of facilities. The Rural Electric Cooperatives can participate in this venture. Congress has given them the authority. When possible the industrial sites should be combined near airports, near a railroad spur and near a major highway.

Available facilities or buildings are so important. About 90 percent of industry today is looking for a building as their first priority when locating. Most are looking for a specific size. Based on that data we are able to target specific industry and make available specific sized buildings.

Home grown industry -- this can be accomplished with the rural technology center concept. This comprehensive effort of handholding with new startup industry includes working with financial packaging, locating facilities and beginning the industry through an incubator concept until it is up and running. They also can provide assistance in locating available technologies needed to produce a product. This is the way to home grow new industry. This can be accomplished by a regional concept as well.

These are all good concepts however without focus they are to naught. Whatever legislative package that is adopted must have someone whose sole responsibility is to the rural economic and industrial development of rural America -- a rural America Czar if you will.

We must reaffirm that this department is the lead agency for rural development. The department clearly has the mandate. The Secretary of Agriculture, was specifically charged with the role of rural development in the Rural Development Act of 1972.

The Carter Administration created by Executive Order the Office of Rural Development Policy that analysed trends, set-forth goals and objectives but lacked the implementation element. This has been the trend and the attitude since the beginning of the Department of Agriculture in 1862.

Yes, the 1972 Act and previous Acts have dealt with the basic infrastructure. Without rural development programs focusing on housing, electricity and rural water we would not be where we are today. But, even these things without jobs for people are for naught. Focus is needed for these and other active rural industrial economic development programs.

The Rural Development Policy Act of 1980 called on the Secretary to develop a rural development strategy. As a result of that law, the USDA issued "Better Country - A Strategy for Rural Development in the 1980's. For the first time, it was noted by the Federal Government that a further bonding or economic partnership must be forged between the farm and the rural community for the ultimate progress of both rural institutions. But there it ended. There was not a follow-up implementation of the needs. Various studies have been conducted since that time but again no implementation.

What has happened since that time? Farmers and ranchers who could have survived with off-farm jobs have left their farm or ranch. Reduced numbers of farmers and ranchers has closed the downtown of communities. The linkage between farm and rural communities has never been demonstrated so greatly than in the past five years. Rural communities have become desolate because of the lack of farm income flowing into the communities.

For the last eight years, I have pushed for and introduced legislation to change the Department of Agriculture to the Department of Agriculture and Rural Development. Within this legislation, I would set-up a separate rural development administration to be responsible for the active implementation of a rural development revitalization program as well as development of policy, but not only policy. This same agency would interface with other federal programs that affect rural areas but would have the lead role for rural development in the Federal Government.

The much revered Des Moines Register has editorialized that USDA has outlived its time and should be dismantled and given a different mission in today's world. They went as far as to support changing the name of the Department to more accuratelly reflect the mission needed.

Most recently, the National Advisory Council on Rural Development, in its final act as the Reagan Administration gave way to President Bush, sent a report to the secretary of agriculture.

The panel recommended that the secretary should become the spokesman for rural America, as well as production agriculture. The USDA should have a rural development agenda as a primary objective. The panel supported changing the name to more accuratelly reflect the rural constituency.

There is a lot of talk about authorizing new programs. But, before there can be targeted programs to growth-centers in rural America, there must be an admission and responsibility on the part of the Department that rural America is part of this agencies mission. It must begin with the name change and the streamlining of the Department with a responsible agency within. We are whistling "Dixie" if this is not first addressed.

Whatever legislation the Congress adopts should be a policy that can be directed by the Congress through the Department of Agriculture and the new rural development administration. Block grants directly to state governments will ultimately lead to a failure in accomplishing the goals set by the Congress. The responsibility to do the job is removed once the money is transmitted to the states. That's not to say that some federal-state iniatives might be in order.

The point is that no agency of the Federal government, even when charged with the duty, enthusiastically engages in the development of rural America. The Farmers Home Administration, (FmHA) has the most programs for rural growth and maintenance, but those programs are frequently subordinated to..."farmer" programs which deal exclusively with agricultural production or marketing.

By the same token, when a farmer goes into the Farmers Home office, he really doesn't care to find out that all the personnel are tied up with a particular rural development project; he's got crop problems and as you know, when it's time to sow or reap, it can't wait. On the other hand, when a rural development project is timely the people who are trying to get the progress made sometimes can't be helped because the personnel are tied up with farmer's problems.

The Department of Housing and Urban Development (HUD) has a budget of billions targeted to urban development and Federal Housing

Authority (FHA) housing programs but are concerned basically with geographic areas with a population in excess of 50,000 with concentration becoming more acute and attentive the higher the population figures.

The Department of Agriculture and Rural Development combined with a Rural Development Administration would give equal footing to rural America.

In summary, responsibility and authority for the development of rural America is fragmented. The solution is to restructure the majority of programs dealing with rural development under a single agency with a direct line of responsibility and responsiveness to the people of rural America.

Specifically, H.R. 831 would provide the following:

1. The current Farmer's Home Administration (FmHA) will become the Farm Administration with jurisdiction over the present agriculture loan programs.

2. The FmHA ingredients for rural development will be combined with associated measures from the Resource, Conservation and Development program, technical assistance and planning functions of other parts of the Department to form a new Rural Development Administration (RDA). FmHA, with some of its admitted failings, still has the best delivery system available in rural America. We want to keep it that way and strengthen the role of service delivery to farmers who need all the help they can get these days.

Programs transferred to the new RDA will include business and industry loans, community facility loans, water and waste disposal loans and grants and all other programs except single-family housing, dealing with rural development but not pertaining to agricultural production or farms.

3. Current FmHA district offices will become the delivery system for the rural development administration. The RDA District offices will work directly with the RC&D Councils, the Economic Development Planning organizations, and the people of rural America for a better life. Much of the rural development functions of FmHA have already been shifted from the county level to the district level, with the primary exception of single-family housing.

I might explain why I have left section 502 single-family dwellings with FmHA to be administered on the county level. This would leave single-family homes where housing could be easily accessable to those who qualify for FmHA financing. If there is a concern about separating the programs on the local level, perhaps single-family housing could be delivered from the district level to the county level through a circuit rider program. However, I feel the local-county delivery system of single-family housing is important if the necessary relief can be given to the local county FmHA supervisor by moving the other rural development programs totally to the District level.

4. RC&D Councils will continue as volunteer groups working with local units of government and the people for a better life. Soil Conservation Service technicians who work as RC&D coordinatiors will continue in that capacity and where possible be further trained to involve themselves in the associated measures aspects of rural development.

5. Two categories of FmHA loans will be transferred to the Soil Conservation Service (SCS); watershed protection and flood prevention and resource conservation and development loans. These are currently completed with techical assistance and planning by SCS and administered by FmHA.

6. The bill calls for renaming the Department of Agriculture the

Department of Agriculture and Rural Development. The reasoning behind this action is that our city cousins have a Department of Housing and Urban Development and that one-fourth of America - those who live in rural America - should have at least a part of a cabinet level department which has the emphasis on rural development.

From the hearing in 1984, I recall that a few of the members were concerned about raising the emphasis on rural development and any shift in dollars from farm programs to rural development programs. In fact, 74% of the funds have been shifted from rural development programs since 1981 to help fund farm programs. And, still farmers have been forced off their land. It is obvious that farmers are far more dependent on off farm jobs than what many of us previously thought.

Even with the cost of farm programs going down, we cannot continue the cost of farm programs unless we have a broader coalition of interest. A Department of Agriculture and Rural Development can in fact provide that interest and support in the Congress. We are at the crossroads to maintaining support for our programs. Those of us from the agriculture community had better make these decisions before those from the urban communities make unfavorable decisions for us.

Realizing the need for recognizing more of the people that USDA serves and the need for broader appeal in the Congress, Appropriations Chairman Jamie L. Whitten has changed the name of his subcommittee to the Subcommittee on Rural Development and Agriculture.

7. The bill also proposes the lateral transfer of such personnel as necessary on the state and national level, plus FmHA district personnel, who are now providing these services to the appropriate new agency. It is proposed that the specialists now working with specific programs continue in that specialty at their new assignment for an

orderly transition and to see that service to the people is not delayed.

The proposal leaves intact the Federal Crop Insurance Corporation and the Rural Electrification Administration (REA). Should the REA choose to be part of the Rural Development Administration, I would have no objection. I know the rural electic cooperatives are in fact wanting to do more in rural development and in some cases have begun the process. The Congress has already given them some tools to further economic development efforts that can be accomplished off-budget.

8. In response to testimony given in 1984, the bill proposes to give RDA the basic authority to carry out rural development functions as envisioned in the Economic Development Administration, as a precautionary measure should any proposal to merge EDA with existing agencies materialize. This provision lifts basic authority from the original EDA Act and proposes that the Secretary of Agriculture may make grants and planning grants accordingly to the same entities, et cetera including multi-county organizations. As it stands now, without this authorization our rural development funds administered through EDA would most likely wind up in the Department of Housing and Urban Development.

I feel, and those who understand the proposal agree, that streamling will be good for everyone:

Agricultural producers will not have the forces of their assigned personnel diluted and the delivery of agriculture programs will be streamlined.

The RC&D Councils' role will be emphasized and strengthened.

The proposal will give a more comprehensive thrust to the Soil Conservation Service.

And, finally, the proposal will for the first time provide a sole-source agency for delivery of rural development programs to rural Americans who make up 25 percent of this nation's population and who have the hopes and dreams of continuing to live and work in rural America with a vastly improved economic and social climate.

Finally, on one other note I would ask the Committees' consideration to authorize a Rural Technology Center that is currently in existence in Oklahoma that has been a national demonstration project for the last few years. It is a center that has proved itself by providing technology transfer to small and medium-sized businesses in becoming more competitive and providing jobs in rural depressed Southeastern Oklahoma.

The only reason why rural technology transfer centers are being discussed at the Department of Agriculture for rural America is the Rural Technology Transfer Center legislation that I sponsored and got passed a couple of years ago. It would be appropriate to designate "the first of its kind", as the National Rural Technology Center to provide assistance in exanding and establishing additional technology centers throughout the economic depressed areas of rural America. I thank you for your consideration.

For years the problems have been ignored in rural America. They were always there -- festering, just not seen. Rising land values artificially maintained farmers on the land which in turn sustained local rural mainstreet economies. With the crash of land values beginning in 1981, farmers were forced from the land and downtown rural mainstreet had reached the crisis point. It has finally become clear after years of ignoring the problem that rural America is passing.

I'm told today that we can not afford the time to reorganize the department for the benefit of rural areas. We do not have the luxury of saying no to this effort. Senator Talmadge worked toward the creation of a rural development administration in 1972. He was told by the Administration that we do not have the time. How many more rural communities must pass, how many more rural Americans must vote with their feet before we have time?

The challenge is to us. Not our forefathers or those who come after. We must begin. We must have the vision for our children and those who desire to return to a rural area.

To begin the vision and launch the future of the Department for the next 100 years, I hope that for the sake of rural America that you adopt the Rural Development Reorganization Act of 1989 as part of your comprehensive package to address the future of Rural America.

Mr. Chairman and Members of the Committee, again thank you for affording me the opportunity to appear and I'll be glad to respond to any questions pertaining to H.R. 831.

STATEMENT
of the
Honorable Fred Upton
Member of Congress from Michigan
before the House Agriculture
Subcommittee on Conservation, Credit, and Rural Development
on June 6, 1989

Mr. Chairman, and other distinguished members of the House Agriculture Committee, I appreciate the opportunity to appear before this subcommittee to offer my perspective on rural development issues. I commend the Subcommittee for its timeliness in recognizing the need to address the critical issues facing rural communities in the United States.

I represent a rural district in southwestern Michigan, and have been concerned about rural development for quite some time. Just last week, I introduced House Concurrent Resolution 140, with Joint Economic Committee (JEC) Chairman Lee Hamilton as an original cosponsor. This resolution calls for all the "appropriate committees of Congress" to give "due consideration" to the advancement of rural development legislation.

It is my hope that our work here today will lead to a consensus among our colleagues in the House of Representatives that NOW is the time to act to help Rural America prepare for the 1990's and the next century. During this session of the 101st Congress, I anticipate that all Members of Congress -- no matter what their constituency -- will become acutely aware of the needs and challenges facing rural America. If we ignore those needs in this Congress, we may never again have the chance.

Rural statistics and indicators are clear: the economic health and viability of rural areas is falling further and further behind that of other geographical areas. For example, consider:

o Rural unemployment rates 33% higher than urban unemployment
o Rural poverty levels 33% higher than urban areas
o Rural income per capita 25% lower than urban income
o Rural school dropout rate higher than urban schools
o Rural population has higher proportion of young and old
o Rural economy hurt more in bad times, lags behind in good

Four regional workshops on Rural Development recently completed their work with a national meeting and final publications. The workshops included representatives of government agencies at all levels, and rural business and community leaders. Their conclusions were clear. Rural areas are suffering from a broad range of afflictions. The needs fall into two main categories: infrastructure and human resource development. Infrastructure includes roads and bridges, water and sewer systems, and modern telecommunications systems. Human resources include education, job training, leadership development and technical assistance. If the quality of life in rural areas is to be revitalized, we must also insure access to health care and emergency medical services and access to rural capital.

While it is clear that rural America is not fully sharing the fruits of the current recovery, questions remain about the causes. Likewise, definitive answers are lacking about how to resolve those problems. Mr. Chairman, and members of the committee, I offer the following perspective on the challenges facing rural America -- which I hope will help guide our future discussions on rural development.

Rural America is going through a socioeconomic transition of historic proportions. This was the conclusion of the Joint Economic Committee, of which I am a member, after an intensive study of the "Economic Evolution of Rural America." While only 2% of the nation's population lives on farms, approximately one quarter of its residents live in rural areas. As further evidence of the changes in rural America, over one half of farm families now supplement their livelihood with non-farm income. And in recent years, over 500,000 people have migrated annually from rural areas to urban and suburban areas.

In light of these recent trends, our goal must be to maintain and improve the rural quality of life. The United States has a history of a vibrant heartland, and we must do all we can to preserve this heritage. To do so, and to reverse the disturbing outmigration pattern, we must encourage rural areas to augment their economic roles. Diversification of the rural agricultural economy but also diversification of rural businesses and industries in non-cyclical or anti-cyclical fields is key to the revitalization of rural areas.

The approach to sound rural policy must be a broad based one. We must stimulate private-sector investment in rural America, and assure a stronger private-public partnership in solving problems of rural communities. Attracting such investments means assuring that rural residents and businesses have access to the same quality of public services which urban areas do. The needs are diverse; the solutions wide-ranging. As the Department of Agriculture stated in its publication Rural

Development: Preparing for the Future, "Any approach to rural development which places too much weight on any one development tool is doomed."

For these reasons, I endorse a comprehensive legislative approach to dealing with the economic development needs of rural communities. Good rural legislation would ideally encompass the issues of education, health, economic development, and all the pertinent rural policy issues. The Agriculture Committee would necessarily and rightfully assume the leadership on this legislation, but -- as we have seen -- the needs of rural communities are multi-jurisdictional.

I advocate that this effort be two-pronged: first, a reevaluation of existing federal programs and the accurate targeting of them toward rural areas, and second, a well-thought out approach to any new federal programs to address the special needs of rural communities. In light of the severe budget constraints, I suggest that this two-pronged approach would be the most efficient use of scarce resources.

In regard to the first prong of attack: my research into existing federal policies have shown that there are over 125 programs which already apply to rural areas. The list stretches from rural water programs to migrant health centers and beyond. It may be difficult for some people to understand that with so many programs already on the books, why rural America is as bad off as it is.

The answer is that many federal programs discriminate -- sometimes blatantly -- against rural areas. I am sure all of us have heard from local officials in our districts wondering where the federal money is. Indeed, there is much evidence to suggest that federal funds -- even funds earmarked for rural recipients -- just do not reach rural areas. For example, in 1985, per capita federal expenditures for all functions were $3,192 in urban counties, and $2,478 in rural counties -- a 22% differential. Just one of the specific examples of such discrimination is how Medicare reimbursement rates for urban hospitals are lower than rural hospitals.

I challenge every Member of Congress representing a rural area and every committee of the Congress to examine the programs under their jurisdiction to determine whether such discrimination in funding occurs. I urge them to examine whether programs under their jurisdiction are flexible enough for rural applicants and rural needs, whether these programs can be targeted toward rural areas. I implore them to review the efficiency and effectiveness of these programs. Finally, I challenge them to consider offering legislative proposals to change any discriminatory practices that they might find. It is imperative that we start with a review of laws already on the books to insure fairness for the twenty-five percent of our citizens that live in rural America.

Similarly, any discussion of new legislative proposals for addressing the particular needs of rural areas should be designed to fill the gaps of existing federal programs. One general area which has consistently been neglected in rural areas is the development of human resources. Perhaps this should be the focus for any new programs under consideration. Investment in people is necessary. These efforts could involve proposals to improve education, job training, business services and technical assistance, development planning assistance, and leadership development. I believe that further study of whether the capital needs for rural areas are being met is also merited.

We must stop the exodus of talented people from rural areas. In a recent JEC hearing on rural communities and the effects of changing farm structure, I asked about the role of the federal government in education when rural communities refuse to approve local school millages and states refuse to change financing systems discriminatory to rural areas. These are discouraging facts. One witness, Mr. Robert Thompson, Dean at Purdue University, pointed out that rural communities may be reluctant to invest further in education when their best and brightest talents -- almost without fail -- leave the area to better their individual economic prospects. Helping to improve the economic prospects of rural communities as well as specific ideas to assist rural schools should help turn around this exodus from rural areas.

All of the rural policy proposals from each committee could then be incorporated into one large rural initiative. I would suggest that the theme for this package of legislation be "FAIRNESS TO RURAL AREAS." For too long, rural areas have been forced to swallow unequal treatment by federal policies. It is time to demand equity in federal funding to rural areas. The future and quality of life in rural areas may depend on this goal.

That the Agriculture Committee has initiated a series of hearing on rural development is a good start. I commend the members of the subcommittee for their foresight and commitment to rural areas. In the coming weeks, I plan to continue my rural research work on programs under the jurisdiction of my committees, Public Works & Transportation and Small Business. I will also continue to promote "Fairness to Rural America." I look forward to working even more closely with you in the upcoming months. I might add that if you would like to continue to show your support for a comprehensive legislative package to assist rural areas, you may want to join Congressman Hamilton and I as a sponsor of H. Con. Res. 140, the "Rural Development Initiative Resolution".

Once again, thank you for this opportunity to stand before you today on behalf of a goal which I believe we all share: the revitalization of rural America.

(Attachments follow:)

Federal Programs Assisting Rural Areas and People

Policy Issue

Financing and Providing Rural Public Services

Federal Programs

- Department of Transportation
  - Federal Highway Administration - Roads
  - Urban Mass Transit Administration - Transit systems
  - Federal Aviation Administration
    - Airport construction
    - Essential air service subsidies
  - Federal Railroad Administration
    - State grants to acquire rail lines
- Environmental Protection Agency
  - Wastewater construction grants
- Department of Housing and Urban Development
  - Federal Housing Authority (FHA) and Veterans Administration insured loans
- Department of Agriculture
  - Farmers Home Administration (FmHA)
    - Rural water and waste disposal loans and grants
    - Essential community facilities loans
    - Single and multiple family housing loans
    - Rural rental assistance
    - Rural housing preservation grants
    - Farm labor and housing loans and grants
  - Rural Electrification Administration
    - Rural electric, telephone, and cable TV loans
  - U.S. Forest Service
    - Rural fire protection
    - Schools and roads, grants to counties
    - National forests receipts
    - In lieu of payments (taxes)
- Department of the Treasury
  - Tax policy - tax exempt bonds
- Department of Health and Human Services
  - Social Services
    - Aging
    - Migrants
    - Rehabilitation
- Appalachian Regional Commission (ARC)
  - Support for physical infrastructure
  - Development Highway System
    - Local Access Roads
- Department of Commerce
  - Public telecommunications facilities - construction and planning (grants)

Policy Issue	Federal Programs

Natural Resources Policy	• Department of Interior
	- Bureau of Land Management
	- Wetlands Preservation
	- Bureau of Reclamation
	- Fisheries and Wildlife Services
	- Bureau of Outdoor Recreation
	- Surface Mining Control and Reclamation Act
	• Department of Agriculture
	- U.S. Forest Service
	  - Reforestation tax incentives
	  - In lieu of payments (taxes)
	- Agricultural Stabilization Conservation Service
	  - Forest incentive program
	  - Conservation Reserve Program
	  - "Sodbuster" and "Swampbuster" Programs (Wetlands)
	- Farmers Home Administration (FmHA)
	  - Soil and water loans
	  - Watershed protection and flood prevention loans
	  - Conservation Easements
	- Soil Conservation Service
	  - Resource Conservation and Development (RC&D)
	  - Conservation Compliance
	• Federal Emergency Management Agency
	- Flood insurance
	• Environmental Protection Agency
	- Safe Drinking Water Act
	- Clean Water Act
	- Resource Conservation and Recovery Act
	- Superfund
	• Department of Defense, Army
	- Corps of Engineers

Rural Income and Employment	• Department of Labor
	- Employment Service
	- Unemployment Insurance
	- Job Training Partnership Act (JTPA)
	  - Grants for training economically disadvantaged youth and adults
	  - Subsidies for summer jobs for low-income youth
	  - Help for dislocated workers training for new careers
	  - Job training and employment assistance to Native Americans, migrant and seasonal farm workers, and veterans
	  - Job Corps for disadvantaged youth
	  - Senior Community Service Employment Program
	• Department of Health and Human Services
	- Social Security (retirement, disability, and survivors)
	• Department of Commerce
	- Economic Development Administration
	  - Title I: Public Works Assistance

Policy Issue | **Federal Programs**

- Title II: Business Loan Guarantee Program
    - Title III: Assistance to Communities to Plan for Economic Growth
        - Technical assistance to uncover causes of unemployment and provide assistance in attracting industry
        - Economic research
    - Title IX: Economic Adjustment Assistance
        - Communities with long-term economic distress
            - Revolving loan programs
        - Sudden and severe economic distress
- Minority Business Development

● Small Business Administration
- Small Business Development Centers
- Small business loans and grants
- Small business management and technical assistance
- Economic injury disaster loans
- Local development company loans
- Procurement Assistance Program
- Minority Small Business Capital Ownership Development Program

● Tennessee Valley Authority (TVA)

● Appalachian Regional Commission (ARC)

● Department of Agriculture
- Commodity Credit Corporation (CCC)
    - Loans and payments
- Farmers Home Administration (FmHA)
    - Business and Industry (B&I) Loan Program
- U.S. Forest Service
    - Job Corps' Civilian Conservation Corp (CCC)
    - Senior Community Service Employment Program (SCSEP)
    - Youth Conservation Corp (YCC)
    - Volunteers in the National Forest (VOL's)
    - Hosted Human Resource Program

● Environmental Protection Agency
- Senior Environmental Employment Program

● Department of Housing and Urban Development
- Community Development Block Grants (CDBG)
- Urban Development Action Grants (UDAG)

Education and Retraining

● Department of Education
- Improving Schools Program - State Block Grants
- Headstart
- Follow Through
- Educationally deprived children
- Special education and rehabilitation
- Vocational and adult education
- Bilingual and Minority Language Program
- Educational Laboratories
- Talent Search
- Upward Bound
- Student support services
- Public library construction grants

Policy Issues	Federal Programs
	• Department of Agriculture - Cooperative Extension Service - U.S. Forest Service - Schools and roads, grants to counties

	• Department of Labor
	- Job Training Partnership Act (JTPA)
	  - Grants for training economically disadvantaged youth and adults
	  - Subsidies for summer jobs for low-income youth
	  - Help for dislocated workers training for new careers
	  - Job training and employment assistance to Native Americans, migrant and seasonal farm workers, and veterans
	  - Job Corps for disadvantaged youth

	• Appalachian Regional Commission (ARC) - Educational and training needs

Reducing Rural Poverty	• Department of Health and Human Services
	- Rural Poverty-Public Assistance, AFDC
	- Supplemental Security Income (SSI)
	  - Social Security (retirement, disability, and survivors)
	  - Community Services Block Grants

	• Department of Agriculture
	- Food and Nutrition
	  - Food Stamps
	  - School Lunches
	  - Women, infants and children (WIC)

	• Department of Energy - Weatherization assistance for low-income persons - Low Income Home Energy Assistance
	• Department of Housing and Urban Development - Community Development Block Grants (CDBG) - Rural Rental Rehabilitation - Rural Partners in Self-Sufficiency - Assist low-income families to gain financial independence

	• Department of Labor
	- Employment Service
	- Unemployment Insurance
	- Job Training Partnership Act (JTPA)
	  - Grants for training economically disadvantaged youth and adults
	  - Subsidies for summer jobs for low-income youth
	  - Help for dislocated workers training for new careers
	  - Job training and employment assistance to Native Americans, migrant and seasonal farm workers, and veterans
	  - Job Corps for disadvantaged youth

Health Systems	• Department of Agriculture - Farmers Home Administration (FmHA) - Essential community facilities loans

Policy Issue	Federal Programs
	• Department of Health and Human Services - Medical and hospital benefits - Medicare - Medicaid - Community Health Centers - Migrant Health Centers - Rural mental health demonstration projects - National Health Service Corps - Area Health Education Centers - Health profession training programs - Preventive Healthand Health Services Block Grants (to states) - Indian Health Service (IHS) - U.S./Mexico Border Initiative - Improve health care along border from California to Texas - Frontier Initiative - Provide primary care services to isolated rural areas • Appalachian Regional Commission (ARC) - Assistance to rural hospitals and clinics

RURAL DEVELOPMENT CONCURRENT RESOLUTION

H. Con. Res. 140

Introduced by Mr. UPTON (for himself and Mr. HAMILTON)

On June 1, 1989

WHEREAS, rural communities in the United States are an integral element of American culture;

WHEREAS, rural America was the origin of the United States economic strength and remains a foundation for the success of the United States in the world economy;

WHEREAS, the rural and agricultural economy is undergoing a fundamental socioeconomic transition of historic proportion;

WHEREAS, the basic infrastructure supporting the economy of rural areas, including roads, bridges, schools, hospitals, water and sewer systems, and telecommunications needs repair and upgrading;

WHEREAS, rural communities and the rural economy can no longer survive solely on the basis of traditional forms of agriculture and should be encouraged to discover augmented economic roles and purposes in a changing technological and international marketplace which increasingly renders rural areas less insulated from global economic factors: Now therefore, be it

Resolved by the House of Representatives, (the Senate concurring), that the appropriate committees of the Congress shall give due consideration to the formulation and advancement of a comprehensive package of legislation dealing with the economic development needs of rural communities at the earliest possible date.

RURAL ECONOMIC DEVELOPMENT

THURSDAY JUNE 8, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Tallon, Penny, Staggers, Espy, Sarpalius, Long, Grandy, and Holloway.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Joseph Muldoon, assistant counsel; Francie Monaghan, clerk; James R. Lyons, Joe Dugan, and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The hearing will come to order. Today is the second day of the month-long hearings on rural development which the Subcommittee on Conservation, Credit, and Rural Development will be conducting.

On Tuesday, the subcommittee heard from Members of Congress who have certain ideas about how to stimulate economic-growth activity in rural areas. Members who testified established something that we have known for some time now: Rural development means many different things to people who live outside of urban areas. The needs are different, the approach is varied, and unfortunately, the budget deficit restricts efforts to make a financial commitment in Federal dollars.

From the testimony presented Tuesday, we received well-established facts on how the rural areas have not kept pace with urban-economic growth in every sector, including per capita income, education, health care, capital investment opportunities, and human resources. As staggering and as numbing as the statistics are, the subcommittee is challenged by the complexity of rural economic development needs and willingly accepts the task before us.

To assist in our endeavors, the subcommittee has devoted the month of June to the hearing process, as a public forum on rural development. But, rather than ask organizations or individuals to testify on rural development philosophy, we are asking each witness to be specific with their ideas.

With limited Federal resources, the subcommittee is quite anxious to hear what organizations propose to curtail the steady erosion of our rural communities, and how priorities should be directed, given the financial constraints under which all Federal programs are now operating.

Today's witnesses represent a cross-section of the organizations which have established ties in rural America. The National Rural Electric Cooperative Association and the National Rural Water Association. Water and electricity represent services which, for some areas of the United States, are slowly being recognized as luxuries, which many communities cannot afford, rather than the basic necessities which most of us in this country take for granted.

The witnesses also include representatives of the National Council of Farmer Cooperatives, and the Organization for the Protection and Advancement of Small Telephone Companies. Electricity, water, communications, and the farmer.

This hearing will set the stage for the coming weeks ahead in which the subcommittee will be hearing from all associations and organizations having one common goal—a healthy, vibrant, and economically sound rural America.

Mr. Tallon.

Mr. **Tallon**. Mr. Chairman, I thank you. I do not have an opening statement. I just would like to welcome this distinguished panel, and I look forward to hearing their testimony. Thank you very much.

Mr. **English**. Mr. Espy.

Mr. **Espy**. Mr. Chairman, I have a written statement that, with unanimous consent, I would like included as a part of this record. In lieu of that, I would like to welcome our panelists and our witnesses here today. I know Mr. Bergland well, and we all know of his history and his involvement in this area. So I am looking forward to listening to his testimony, and looking forward to working with him on marking up the legislation that this committee will consider for the balance of this year.

Mr. **English**. Without objection, your complete written testimony will be made a part of the record. Let me say also that our colleague, Congressman Stallings, also has a written statement, and without objection, that also will be made a part of the record.

[The prepared statements of Mr. Espy and Mr. Stallings follow:]

June 8, 1989

OPENING STATEMENT BY CONGRESSMAN MIKE ESPY BEFORE THE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

MR. CHAIRMAN, I WANT TO COMMEND YOU ONCE AGAIN FOR HOLDING THIS SERIES OF HEARINGS. TODAY WE WILL FOCUS OUR ATTENTION ON THE NEED FOR NEW FEDERAL POLICY THAT FOCUSSES ON RURAL AMERICA. A COMPREHENSIVE RURAL DEVELOPMENT POLICY IS LONG OVERDUE, AND WHEN THE MAJORITY OF AMERICA'S POOR LIVE IN RURAL AREAS, IT IS IMPERATIVE THAT THE WHOLE NATION REFLECT ON THIS DILEMMA.

THERE ARE MANY NEEDS IN RURAL AMERICA, WHETHER IT IS IN MISSISSIPPI, OKLAHOMA, MINNESOTA, OR TEXAS, WE ARE NOT ONLY REMINDED OF THE PAINFUL DISPAIR THAT GENERALLY ACCOMPANIES THE VICTIMS OF LONG-TERM POVERTY, BUT WE ARE CONSTANTLY REMINDED OF THOSE WHO ARE MARGINAL, MOVING IN AND OUT OF POVERTY EVERY OTHER MONTH, THE WORKING POOR.

MR. CHAIRMAN, ALMOST 43 PERCENT OF THE PEOPLE IN MY DISTRICT, THE SECOND DISTRICT OF MISSISSIPPI, LIVE BELOW THE POVERTY LEVEL. THE OVERALL UNEMPLOYMENT RATE IN FEBRUARY 1988 WAS 16.8 PERCENT, COMPARED WITH 5.7 PERCENT FOR THE NATION. UNEMPLOYMENT RATES REACHED 35.7 PERCENT IN SHARKEY COUNTY AND 30.7 PERCENT IN TUNICA COUNTY.

THE NEEDS OF RURAL AMERICA CAN ONLY BE ANSWERED WITH DECISIVE ACTIONS GUIDED BY BALANCED RURAL POLICY INITIATIVES. INFRASTRUCTURE DEVELOPMENT CANNOT BE IGNORED; WATER MANAGEMENT, EDUCATION, AND HOUSING NEEDS ARE JUST A FEW OF THE MANY PROBLEMS THAT HAVE TO BE ADDRESSED.

IN CLOSING MR. CHAIRMAN, I HAVE OFTEN ILLUSTRATED MY VISION OF AMERICA BY DEPICTING IT AS A MIGHTY CHAIN OF STATES. EACH STATE REPRESENTING ONE LINK IN THAT CHAIN. THE CHAIN IS ONLY AS STRONG AS ITS WEAKEST LINK. REALIZING THis, WE SHOULD DIRECT OUR RESOURCES TO THOSE LINKS THAT ARE THE WEAKEST, THEREBY INSURING THAT THE GENERAL WELFARE OF THE ENTIRE CHAIN IS PRESERVED. MR. CHARIMAN, IN A DEMOCRACY, THE STRONGER THE CHAIN, THE SAFER THE TOWING.

OPENING STATEMENT ON RURAL DEVELOPMENT AGRICULTURE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

CONGRESSMAN RICHARD H. STALLINGS

JUNE 8, 1989

I want to thank Chairman English for his leadership in the area of rural development and for arranging hearings through the month of June.

The need for action in rural America is well documented. Multiple studies and public hearings have attested to the fact that rural America has paid the price for the economic recovery in coastal urban centers.

The past Administration pushed more and more responsibilities to local and state governments under the guise of reducing federal taxes. The obvious result has been a widening of economic disparity between urban and rural areas. Rural states and their local governments do not have the tax base to pick up the pieces that were dropped by the federal government.

Rural unemployment is 31 percent higher than urban unemployment. Rural poverty is 1/3 higher; rural incomes are 25 percent lower; rural school dropout rates are higher than their urban counterparts; rural areas have higher proportions of young and old populations with inadequate health care facilities; and teenage suicide attempts are 20 times that of urban areas.

Many of our federal policies discriminate against rural areas. These include health care funding allocations, education funding, and infrastructure development. I do not want to detract from the challenges of the inner cities and the difficulties that urban areas face. But it is time we ask for equal treatment. It is time our rural populations are made beneficiaries in this great economic recovery I keep hearing so much about.

We need to create new business opportunities and diversify our economic base in rural areas. We must target rural medical delivery systems and education for funding equity. We must broaden job training and technical assistance; expand our rural infrastructure and telecommunications; and, provide incentives and matching funds for local initiatives.

With all these initiatives, we must not forget that much of rural America's economic base is still dependent on agriculture. A vast number of rural businesses are directly linked to agriculture. The local seed supplier, fertilizer dealer, fuel station, processing and packing plants, lending institutions, equipment dealers and other businesses are all dependent on the health of the agriculture economy.

Any comprehensive rural development policy must include a healthy agriculture policy. We cannot abandon farmers while trying to create new initiatives. They go hand-in-hand.

We cannot afford to continue to ignore and abandon rural needs as has been done over the past decade. Let's get on with action---judiciously committing badly needed resources to our rural areas.

THANK YOU MR. CHAIRMAN. I LOOK FORWARD TO THESE HEARINGS AND WORKING WITH YOU IN FASHIONING LEGISLATION.

Mr. ENGLISH. We are extremely pleased today to have the chairman of the full committee join us. Mr. Chairman, do you have any comments that you would care to make this morning?

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. Thank you very much, Mr. Chairman. Very briefly, and with some degree of apology to the witnesses. I say it for the reason that last night our colleagues, subcommittee chairman, Mr. English and Mr. Espy, had a special order on rural development—rural commercial—and I went to participate with them; but my apology to the witnesses. I have not seen the witness list for today's hearing. I knew we were having a hearing. But I invite you to read my remarks in today's Record, of last night's statement, because I mentioned the fact that we were not in competition with our urban brethren. We had to create REA to go out into the countryside. Because when urban areas had 10,000, we in rural areas might have only a 100. That was the birth of the REA.

Mrs. Goatcher, last night I mentioned the fact that why should a grandmother out in the countryside not have the same ability to pick up the phone and call her grandchildren far away? What is the difference between a grandmother in an urban community and out in the countryside? We have the same right, we should have the same privilege, and that is why the small telephone companies are out in the rural area.

And Mr. Johnson, I mentioned that I still have in my congressional district places without water. We have the rural water supply districts, and we are trying to get water out to them. That was my statement last night. I was speaking about what you do, and what your members do, and why we need to do more. I invite you to read my remarks. I guess the honesty of the situation of what we are trying to do is, we try and articulate it—and not knowing that you would be here—my statement. In part, last night, was about what you do, and how much more we need to do for rural America.

Mr. ENGLISH. Thank you very much, Mr. Chairman. I appreciate that very much. Again, I want to commend the chairman for the commitment and priority that he has given this issue during this Congress. I do not think that there is any question, that the leadership and direction that he has given us is going to make it possible for us to come forth with a bill, and we are all very excited about that.

Let me say it is a real privilege for me to have the high honor of introducing as our first witness today the former chairman of this subcommittee, one who I had the honor to serve with not only in the full committee, but serve under in this subcommittee; one who is very familiar, as far as the members of the Agriculture Committee are concerned, and certainly it is a distinct honor to have a former Secretary of Agriculture come before us and testify. Of course I am speaking of our good friend, Bob Bergland.

Bob is now executive vice president of the National Rural Electric Cooperative Association in Washington.

Bob, we want to welcome you here, and thank you very much for coming back and honoring us with your testimony. We will be happy to receive your testimony.

STATEMENT OF BOB BERGLAND, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. **Bergland**. Thank you very much, Mr. Chairman. I have a rather lengthy statement I would like to include for the record, but shorten it by some summaries.

Mr. **English**. Without objection, the complete written testimony will be a part of the record.

Mr. **Bergland**. We think the REA model is a good pattern to follow in the business of rural development. In the early 1930's, the President of the United States attempted to persuade the investor-owned power companies to bring their lines to rural places, and they respectfully declined because the risk was too great. The risk upon their stockholders was simply too heavy, the result of which was the passage of the Rural Electrification Act of 1936, creating a partnership between the United States and the local communities.

It has been a big success, both in the electric and in the telephone business, and we think the model and experience found in this, in itself, huge development strategy, could well be the model for other forms of community development.

The one thing we can say about this business, Mr. Chairman, members of the committee, is that it is messy. It does not lend itself to a national computerized econometric model.

Development starts at home, or does not start at all, and there are no two communities alike, and any plan simply must recognize that that community has to sign on for this work or nothing is going to happen.

We did some studies of the Office of Economic Opportunity programs in the 1960's, some of which were successful, and some faded. Those that succeeded were those where the local community leadership said this is a good idea, and they were willing to buy into it with their prestige, with what money they had—and sometimes it was not much—but they lent their energies to the mission, and it was kept as an ongoing part of the development strategies.

The ones that failed were those where the community said, this is not a good idea, it does not fit here, and they turned it down, and when the Federal money went away the whole thing died.

So any development program must recognize the importance of local community leadership and give them support, however, because like in the 1930's, if there is not help from the outside, the most hard-pressed communities simply cannot do this on their own under the so-called operation bootstrap theory.

In response to your questions, we have some specific recommendations. We congratulate you, and members of this committee, and others, for your support for a measure last year that would give the REA a technical staff to help these cooperatives, telephone and electric, in the pursuit of local development strategies.

We think this is an important mission. Even though the administration has said it is unnecessary, we beg to differ. The analogy we think is appropriate is the issue of rural bankers—my son-in-law is one—and all farm loans go through a farm lending officer who provides a certain amount of supervision to that loan, to be sure that the money they have invested with the farmer is prudently managed.

Rural banks cannot operate a rural-lending program without having some loan supervision. The same applies to REA that holds the first mortgage in these systems. It is the primary lender. Those local cooperatives are not going to do much if REA says no, or throws cold water on what they may attempt to do, because they can be a very powerful force, for better or for worse.

If REA as an agency, would provide more leadership in economic development, we would see the local systems that have capacity to generate money, would invest their time and energies more likely than if REA says this is not what the law intended and they tend to discourage this sort of activity.

Up until the 1970's, REA did indeed have a strong economic development support staff, and the results of that are well-documented. We all understand the importance of their taking a positive role in development activities as far as the electric and telephone borrowers are concerned.

We strongly recommend the committee deal with the issue of what we call "distance learning," sometimes called "star schools." The rural schools are in big trouble. Rural communities are in big trouble. You have seen the numbers, what is happening in rural schools, and the numbers in rural places are as bad as an urban ghetto.

We have an enormous problem of high-school dropouts. College kids do not return. The ones who stay in rural areas are those who do not finish school. And employers, large and small, have told us that they cannot possibly land, or locate, or expand a facility in that community if the people who they are going to hire cannot even read the instructions.

And so, we are really excited about the program that has been developed in your State, Mr. Chairman. Oklahoma State University is, as far as I know, the first in the country to establish a program where the university provides teaching to those kids in schools where the school body is too small to afford a teacher for, say, three kids in mathematics, or the sciences, or a number of programs, which are offered in large school systems but simply cannot be afforded in these rural places.

So we think that "distance learning," the "star school" technology, is an idea whose time has come. We need some help with it, and we recommend a modest amount of funding to get this program started, or expanded, I should say. It has already started.

We are working with a number of States, including South Carolina and Minnesota, and I think there are about 10 States where the universities and the State departments of education are creating this system. In some places they use telephones, in some places they use satellites, depending on the technology that is available to get the program going. And while we are not recommending one technology over the other, we are asking that any measure be crafted in such a way that the most appropriate technology can be put to use.

The business of the new developments in electronics we think will open up a whole new agenda for rural places. We call it the "electronic highway." It can overcome the cost of distance, and while the time was when the factory had to be across the street from headquarters so they could maintain close supervision, that is no longer needed.

With the modern telecommunications today, and with the computer-driven systems of today, the location of the plant, the manufacturing facility, can be in a rural place. Manufacturers like a rural place for a lot of reasons: one, there is space, and usually the amenities are attractive. And so if other things are available, like water and telephone service, and electric service of course—and schools and hospitals are adequate—they would prefer to come to a rural place rather than land in downtown District of Columbia.

That is an extreme example, but the truth is that the rural areas offer certain advantages. With the advent of modern technologies, and the computer-driven robotics, and the rest, we think that rural communities can overcome the cost of distance which has prevented development up till now.

We strongly support the business incubators. We have a small program going on our own. We have five business incubators which we are in the process of organizing with the local cooperatives, and we have had some success. We are doing this entirely on our own, and so we have had to be limited in the scope because the burden of getting one started is no small matter for a local cooperative to do on its own.

But the focus is on small business, and we find that in rural development that is the best place to go, but it is not newsworthy. It is two jobs here and three jobs there, and it is no big deal. But it is the way the rural economy can be built and stay competitive in the most effective fashion. We of course target on local industry. We work especially with anything that is already going on in the community, helping them improve their product or their markets, or their engineering, or their finances. We are trying to get State universities to expand the role of extension.

I am personally in favor of creating an industrial extension role, similar to the agricultural Extension Service role that we have known for years and years. It has transferred agricultural technology from the research stations to agriculture. We think the same thing could be done in bringing the knowledge at the university schools of business, and engineering and finance out into the countryside, into these rural communities, through some extension format.

Maybe the agricultural extension structure is the thing to use—I think it is—but it requires support from the State and Federal authorities to make this happen. We think it is terribly important, however, that these small local business entrepreneurs have access to that research work that is going on at that university, and be made available to them at some cost.

As matters now stand, they cannot cross that barrier because universities typically do not have any way of transferring the technical knowledge they have in robotics and computer sciences, and advanced marketing techniques beyond their own campus border, excepting in the case of agricultural colleges. I think it is a model that should be looked at.

We believe that we need to have some kind of a revolving capital fund to finance business expansion. We have a real problem in these rural places in particular. Private banks have told us that they are severely limited in what they can do.

They not only cannot take any risks with their depositors' money; their ability to finance any number of projects, of any scale, is usually hampered severely. We are talking with the Small Business Administration about the possibility of redoing the Small Business Investment Corporation.

It is a tool that is currently available, but it is too big to fit the rural areas, and we would like to see if it could be scaled down. Last year, you and your colleagues passed a law, signed by the President, that created authority for the cooperatives to use up to 15 percent of their own resources for community and economic development.

That is a couple billion dollars, all told. We have had a real problem getting these cooperatives to use that money. One, REA has sort of poured cold water on it. But probably even more important, these cooperative leaders say, well, we are not lenders. I was in your State recently, Mr. Chairman, and they were trying to finance a welder's cooperative, a training program, and trying to find ways of getting this program started. It was an important thing for that community and for its business planning.

The cooperative had the money but did not have the capacity to make this group a loan because they are not lenders. What we need is some sort of corporation into which our cooperatives can buy stock, and get banks to buy stock, and individuals in the community to buy stock, and that this is a revolving account that can take an equity position in a business expansion plan, and can leverage these deposits to borrow more money, maybe under the authority of the SBA in a revolving loan account.

So it is professionally managed. It has to be sub-State in scale. You cannot have this just in the largest city in the State. It has got to be organized along some logical community boundary involving many counties, mostly, and many cooperatives. That is something that needs to be created. We really are lacking access to adequate capital in these rural places.

We strongly support the recommendations being made by the people who are managing and responsible for rural water systems. We know how important rural water supplies are. It is a limiting factor in community development.

One of the problems is there are about 14,000 rural water systems in the United States. These are locally controlled and owned, of course, which is fine. They are also very small. And when it comes to some of the major industrial water problems that are developing, they are limited in what they can do.

Farmers Home has no technical support for them. They have no structure in dealing with these more complex problems that are arising, and we are not in the water business, Mr. Chairman, but we certainly want to help these water districts in meeting the communities' needs in any way we can.

So one of the recommendations that we would make is that REA be allowed to fund some water projects that are in areas where there is no local water district. We are not going to compete with those in the business, but we have got areas that do not have water, and the electric cooperative could do it, if we were allowed to do so, and we think that that is a matter that should be looked at.

The same with waste treatment. It is a growing problem, the handling of sewer wastes and garbage. The time was when you would just dump it in the river. We all know that will not do, and there is another area where we do need help.

How to find the money is one of your questions. Well, you have done a good job in reserving some of the money in the budget for rural development. You and your colleagues have taken the appropriate first step, but that is not going to be anywhere near enough to solve the problem, and we strongly recommend that anything that is done carry a requirement that there be a local contribution. That we leverage this money. There is private money to be found, Mr. Chairman, if the guarantees are in the right place, at the right time.

We do not have to have entirely Federal funding for these things, and cooperatives are willing to use their money, and there are other local business, private leaders willing to do something. But they cannot do it on their own, the risk is simply too great, and so the Federal role to help guarantee and provide leadership, and technical support and assistance is vital to this whole effort.

I personally think that there needs to be a wholesale change at USDA. I think the authorities in development are too split up; they are in too many places. It ought to be concentrated in a single agency. I am personally in favor of taking the development work out of Farmers Home because it gets swamped by the more urgent agricultural lending problems of that agency. But that is a personal recommendation.

So leveraging is important, and the third question you have asked is, What can you do to help? Well, first of all, we are there. We are 1,000 systems in 46 States. We have 60,000 employees, 11,000 locally-elected directors. We have $13 billion in revenues. We have a deep commitment to that community. We are there for keeps, and we can bring an enormous capacity to the proposition.

We will help you, politically, to pass legislation. We know how to lobby our Members of Congress, even our urban brothers and sisters, and this is an issue where we think urban persons have as great a stake as we in rural places. And so, Mr. Chairman, that concludes the summary.

[The prepared statement of Mr. Bergland appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Secretary. I appreciate that. I think that you made some excellent points.

One of the complaints that I continually hear from small rural communities is that they really feel lost whenever they come in contact with the Federal Government. I think you mentioned that so much of various responsibilities and authorities are split up in various Government agencies, not only within the Department of Agriculture but other agencies around the Federal Government.

Would there be some merit in trying to provide some kind of one-stop location, where a city council and the mayor in a small rural community can contact one place in the Federal Government, and expect to receive assistance to help them coordinate their request, or where they might go to find assistance? Does that have merit, do you think?

Mr. **Bergland**. Well, I think it does. About all they can do, though, is see to it the paper gets put in the proper pigeonhole. That in itself does not guarantee action, or response, and I think, therefore, some restructuring of this whole business would be in order.

The closer to the community the decision can be made the better. The farther away the decision is made the worse it is. It just gets tangled up in all kinds of other priorities, and so I personally think that too much of the Federal funding has too many strings attached. Too much categorical funding, too narrow in scope, and the extent to which more discretion and authority is vested with some locally-constituted responsible body of public and private citizens the better. I know that smacks of revenue-sharing, and it is criticized on that ground, but the truth is that broader local community leadership can best decide on the urgent priorities. Is it more important to improve this hospital or that sewer system 30 miles away? Somebody has to decide.

When the money is tight, there has to be a better, more practical means of establishing priorities, and we do not have it now. As long as we have got it scattered around in a whole bunch of agencies, and everybody shakes the tree to get what we can get, the local community has no way it can say we want to put our money in this hospital and this sewer project will have to wait.

I think that is the kind of structure we need: Some way that we can get the community to decide where the priorities are; not a collection of agencies in Washington. They have not the foggiest idea. I do not think they know where Tipton, OK is, and you and I do.

Mr. **English**. I think, too, Mr. Secretary, you made a good point with regard to financing. It is extremely difficult, particularly down in my part of the country, but also throughout rural America. Bank examiners take a dim view of investing in communities, particularly a small business that is starting up, a so-called cottage industry that is trying to get on their feet and provide some jobs in a local community, and that may be the best hope that many of these local communities have.

The financing issue is going to be a very important one. Interestingly enough, I was visiting with one of the major investors in this country, and he made the point that he thought that this rural development effort was coming at an excellent time. He thinks the pendulum is swinging in that direction. A lot of businesses would like to locate outside major metropolitan areas, and he thinks that we have that moving in our favor.

The secondary market has been recommended by some as possibly providing financing, the mechanism that we put in place in the 1987 Agricultural Credit Act. That is just now getting started. Do you think there is merit in that idea?

Mr. **Bergland**. Yes, sir. I think it is a very important tool. That will enable local private lenders to find some liquidity in that segment of the marketplace. That is important. I would not diminish the importance of that in any way.

What I am suggesting, however, is there is a demand for something that is one step beyond what a commercial bank can do. There is a certain prudent risk that has to be taken from time to time, and banks are not permitted to take that chance, and that is where some pooling is required; where the local utilities, the banks, and individuals in the community can put some money into a fund that is professionally managed and can take a bit of risk.

We are not talking about 2-percent loans; we are not talking about grants. We are talking about business, but we are talking about something that has got an element of risk to it that is one step beyond what a bank can do, but it is not something that requires a grant out of the U.S. Treasury. We do not have that machinery at the moment. That is what we are struggling with.

Mr. ENGLISH. Well, and I think it is very important that you brought this out in your testimony—I think it is critical to underscore each and every time that we have one of these hearings, that we can provide legislation, pass legislation, provide programs that can lend a helping hand; but the bottom line is, ultimately, it is going to be up to the people in each of those communities to develop their leadership. The people themselves are the ones that are going to have to decide whether their community succeeds or fails.

We can offer a helping hand but the Federal Government cannot do it for them, and I think that was an excellent point. Mr. Holloway.

Mr. HOLLOWAY. I just want to say a few words. Of course we have as many problems in my district, I guess, as any in the country, starting with REA, and Cajun Electric, but being a district which has about 18-percent unemployment, it worries me very much about where we go.

I do not really have any questions of you, except to say that whatever we do, I think we have to be very careful that we do not get into making loans to people who know they are not going to succeed almost when they start.

I think we have to be very careful we do not get into some of the problems we have had with SBA loans, of where we write off $2 billion in loans, and all, to private individuals.

So I do believe very much what the chairman said, that we pretty well have to find people who have good ideas, and who are willing to make it happen themselves, even though I can see where we could very well find some help. Money is a tremendous problem, as you said, particularly in farm areas and all, where there have been so many problems through the years.

So we appreciate your ideas, and your thoughts as you come to us, and hope that we can work together, and get our rural areas on the move again. Thank you.

Mr. BERGLAND. Thank you, Mr. Holloway. I would say, Mr. Holloway: REA has done a very good job in helping Cajun deal with this problem down there. They have really helped us.

Mr. HOLLOWAY. Thank you.

Mr. ENGLISH. Mr. Tallon.

Mr. TALLON. Mr. Chairman, thank you, and Bob, thank you so much for your comments and thoughts. My congratulations to

REA, and the outstanding leadership the co-ops are providing in South Carolina. They are really doing a great job. The district I represent is probably like a lot of the people's in this room. We have a surplus labor force; we have lower taxes; we have availability of land; we have good water resources. We have the ability, and resources, and facilities to train people .

The big problem is—and as you brought up in your testimony—is that in these rural areas we are capital poor, and the infrastructure—specifically water and sewer—is the stumbling block. Every time we try to develop something, or entice someone to come into our area, everything really looks great until we get right down to providing essential services—that water and sewer. You have done such an excellent job in REA over the years, in providing the telephone service and the electrical service.

I just hope that in the legislation that we are going to be considering and looking at, that we will continue to get your input. As far as a revolving capital fund, if we could have an REA Program with the success in providing electricity and telephone, if we could move that to this other basic infrastructure, not only for economic development but for quality of life in rural areas. It is simply not there—the water systems and the sewer systems—and not only is it a deterrent to economic development, but just quality of life of people in general, and it is time, I feel, that the country recognize this. Many of my colleagues have talked about a "Marshall Plan" for rural America.

The environmental concerns. And Chairman English talked about this yesterday in his statement. When you have everybody crowded into these urban areas, the cost of infrastructure development, the environmental concerns of pollution—all these are things that I think we really have to consider and look at, and why this might be a wise investment.

I really do not have any questions, but just to tell you that I look forward to working with you, as we have in the past, and I thank you very much.

Mr. BERGLAND. Thank you, Mr. Tallon. One comment. We, in rural places—I am talking about outside the corporate city limits—are at an enormous disadvantage in this rural, water, sewer matter. An incorporated city can finance it by the issuance of tax-free municipal bonds. There is a piece of machinery in place. I mean, the taxpayers subsidize that some, and that is fine; but you go out in the townships and there is nothing. You cannot get these tax-free bonds floated in a rural township in most of South Carolina.

We just had an experience down there, it had to do with a water-supply problem, and lost an industry that was going to expand because the community had no way of coping with the water-supply question. And so it pulled out.

Mr. TALLON. Well, Bob, in my mind—and I think the chairman was talking about—when we are talking about secondary markets, and tax-free bonds, that is an area that we could get the co-ops in. I think we need to do that. Now one question I have is jurisdiction of where you can operate.

In my thinking, you ought to be able to go into any area where these services are not available now. People who live in these areas need these services. It may not necessarily be an area that there is a telephone co-op or an electric co-op, but certainly, there is a need for services for people, and development, and I guess that is what we all have in mind.

Mr. **Bergland**. I think so, Mr. Tallon. We are not permitted to serve cities or towns. REA cannot loan money for a cooperative that goes into a town of—I think it is more than 1,500. We are strictly countryside people. Now some of these areas that were pasture land at one time are now built up in houses, so some of this has developed in that way; but we are prohibited by the REA Act from going into a city or a town. But for water and sewer purposes, you know, things could be amended.

Mr. **Tallon**. Well, we are trying to draft legislation, trying to determine what is rural, and what is not rural, and where the co-ops could operate and where they could not operate. It might be something that the committee would like to look at as far as jurisdiction, and we are looking at getting involved in services that people desperately need, in areas that you may be restricted from going into now. I think it is something that we need to consider.

Mr. **Bergland**. We would be pleased to work with you.

Mr. **Tallon**. Thank you.

Mr. **English**. Thank you. Mr. Grandy.

Mr. **Grandy**. Thank you, Mr. Chairman. I apologize to the committee for being late, but a mark up in Education and Labor kept me from hearing the beginning of Mr. Bergland's remarks.

I would ask unanimous consent to include a statement in the record of today's proceedings.

Mr. **English**. Without objection, so ordered.

[The prepared statement of Mr. Grandy follows:]

OPENING STATEMENT BY THE HONORABLE FRED GRANDY AT THE PUBLIC HEARING ON THE REVIEW OF RURAL DEVELOPMENT ON JUNE 8, 1989

CONSERVATION, CREDIT, AND RURAL DEVELOPMENT SUBCOMMITTEE OF THE HOUSE COMMITTEE ON AGRICULTURE

Mr. Chairman, thank you for sponsoring these hearings on rural economic development. There is no doubt that the health and welfare of our rural communities is one of the most pressing public policy challenges facing our great Nation today. Problems of infrastructure, unemployment, housing, health care, and business opportunities are especially acute in rural America and the solutions are not simple. It is clear, however, that the omnibus, multi-jurisdictional policy response which I believe these hearings are aimed at developing is the proper route to go. I commend you for reaching out to America through these hearings for their proposals for reform and revitalization.

I, along with Congressman Vin Weber of Minnesota, have also taken the initiative to sponsor a rural economic development town meeting in Worthington, Minnesota on June 16 as a further effort to get a "hands on" view of rural development from the very people implementing and planning the efforts we are reviewing here in the "Ivory Tower" of Washington, D.C. I encourage my fellow members to sponsor similar meetings on this topic, as only together, with the policy implementers and beneficiaries working side-by-side with the policy designers, can we truly hope to accomplish a wholesale revitalization of nonmetropolitan America.

If I may, I would like to highlight three key concepts that I believe are central to successful rural economic development policy. They are coordination, improvement, and capitalization.

Coordination.

As the GAO report on rural development, prepared at the request of the Ranking Minority Member on this Subcommittee, the Honorable Tom Coleman of Missouri, revealed, there are at least 88 federal programs with rural development focus scattered through 13 federal departments, agencies, and commissions. I have found similar problems as I have tried to formulate a sensible groundwater policy for agriculture, there is no one person or agency coordinating the whole effort or being held accountable for the success or failure of the program. We need coordination of all rural economic development programs if we are to be successful in appropriately responding to this policy challenge. This is the reason I have cosponsored Congressman Coleman's Rural Development Reorganization Act of 1989 which will establish a Rural Development Administration with the USDA to coordinate all rural development programs and I urge my fellow Congressmen to support this or other similar efforts.

Improvement.

While we have these 88 federal programs with a rural development focus, many of them are designed improperly and as a result are not sufficiently responsive -- especially with regard to timing, (turnaround time) -- to the needs of our rural businesspeople and government officials. We need to reform our current programs so that they have the end user's best interests and an understanding of standard business practices incorporated into the program design. Unfortunately, as often happens with bureaucratic programs, they are often designed with the administrator in mind rather than the user and we need to work to correct this.

The Financing Rural Economic Development or F.R.E.D. Program is a "state-of-the-art" example of a great idea placed in a poorly designed package. The program is designed to provide low-interest loans to non-farm businesses in areas with a population less than 20,000 people and to assist states in establishing their own rural financing programs. There have been problems, however, due to the fact that direct technical grants are currently prohibited under the program and the turn-around time for loans is prolonged. Small businesses have been frustrated under the program as the financing approval has not been timely when they are desperately trying to close business deals. I hope, as part of this Subcommittee's rural development legislation, we can include provisions to remedy the F.R.E.D. Program and others similar to it.

As was mentioned at the first hearing on Tuesday, the policy challenge posed by the current state of rural America goes far beyond the purview of this Subcommittee and the Agriculture Committee themselves. We all need to be working within any committee on which we sit to assure that the legislation which we enact is sensitive to the needs of our nonmetropolitan areas and certainly make sure that it will not have an adverse impact there. I believe the Members of this Subcommittee are doing this as evidenced by our service and participation on various Select Committees of the House, and such other groups as the Rural Health Coalition, the Agricultural and Rural Communities Task Force, and the Corn Caucus. We must also, however, continue to encourage ~~and~~ other Members to do the same and to educate them about this issue.

A prime example of how we can help address the rural development issue through wide ranging legislation is the amendment regarding agri-business employment data collection which I was successful in adding to H.R. 7, the extension of the Carl D. Perkins Vocational Education Act. This data will help determine employment trends and job opportunities in rural areas and help the educational system adjust and plan accordingly.

Capitalization.

We have several rural economic development programs that are delivered through well established systems, such as the Rural Electric Administration, that have an excellent track record. We need to capitalize on these well-tested delivery systems and expand the opportunities available to our rural communities through them. The REA has a demonstration program involving economic development loans, but the need is much, much greater than the current amount available through this project. We need to expand on such opportunities and make the best use out of the resources we have.

Recent monitoring data detected pesticide residue in 33 percent of our more than 700 wells tested in Iowa and 39 percent of more than 500 wells tested in Minnesota. While this does not necessarily mean that these wells were unsafe for drinking, it does point to a major need for the overhaul of our rural water supplies and funding for rural water system infrastructure.

Conclusion.

The challenge is clear, the scope of the challenge is intimidating, but the commitment of the Members on this Subcommittee and on the House Agriculture Committee to the maintenance and growth of nonmetropolitan America is strong and true. I am confident that with the help of the people who we will be hearing from in this very important series of hearings -- those that implement and utilize rural economic development programs -- we will come forward with a bold and workable program that will turn the tide on the current neglect of our rural communities.

Mr. **Grandy**. Thank you. Mr. Bergland, I was looking over some of your testimony, and then something that Mr. Tallon said struck a nerve. REA cannot go into towns 1,500 and over. However, a concept has developed, particularly in my area, called the "cluster concept," where small communities, usually of 1,000 or less, will band together to forge a kind of economic development commonwealth.

And one in particular, in southern Cerro Gordo County and northern Franklin County, in the eastern corner of my district, there is a consortium of about seven towns. They have successfully leveraged $14 into about $150,000.

My concern is with each one of these towns being less than 1,500, could the REA go into this cluster and help these communities, even though individually they are not exceeding the limit? But of course in the aggregate they are. Because this cluster concept, particularly when we talk about rural development, is absolutely vital to those little towns that are on the cusp.

The county seat will probably survive, and maybe the next-largest town, but as we look at where the real attrition is, the flight very often begins from these small towns into the county seat, and then perhaps to the State capital, or the larger communities.

And if they are to remain viable, I think they need first to use their own innovation to create a coalition or a commonwealth, as some of my area has done, and, two, to be able to access some of these programs because they are somewhat novel. I wonder if you have some thoughts about that?

Mr. **Bergland**. We are familiar with the development which is taking place in Iowa under the leadership of Governor Branstad and others, and are cooperating in those missions and think you are doing some wonderful things, brand new. As far as we are concerned, it is a laboratory.

The law does not allow an electric cooperative to use REA money to go into a town or a city of more than 1,500. Now the cooperative is allowed to do, with its own money, what it wishes. And in the case of cooperating with these cluster of communities that you have mentioned, the local cooperatives could use their own resources, and maybe are. I am not exactly sure about that instance.

We, for example, are in five communities with a small business incubator, and we are in areas where we are not allowed to serve electric lights, but we are helping form this business incubator to create manufacturing jobs in that community. While we may not serve that factory per se, the community benefits, and that is what we are all about.

And we get some spill-off from it because we have rural residents work in those places, and they are customers of ours.

Mr. **Grandy**. So are you telling me that, basically, nothing precludes your organization from going in and providing the technical assistance——

Mr. **Bergland**. No.

Mr. **Grandy** [continuing]. And leadership acumen that so many of these communities need?

Mr. **Bergland**. Yes, sir. That is right. There is no legal prohibition on what we can do, as long as we do not use Federal money.

Mr. **Grandy**. And you do not see a need, perhaps, to redraft Federal legislation, to perhaps allow the REA to access these community clusters?

Mr. **Bergland**. I do not think so, but I would like to reserve on that, Mr. Grandy, until our lawyers have examined it carefully.

Mr. **Grandy**. I would appreciate perhaps a written response for the record on that, Mr. Bergland, because I think this is a very viable concept, and something that is going to grow up around whatever rural development initiative we create in this committee.

This is an absolute grassroots, imaginative proposal, and I would like to be able to aid and abet, rather than impede it, if we possibly could.

Mr. **Bergland**. We would be glad to.

[The information follows:]

Response to Question from Mr. Grandy to Bob Bergland

There is nothing in the Rural Electrification Act which prohibits a rural electric cooperative from being involved in assisting local communities in economic development efforts. This is true regardless of the population of those local communities. The population restriction of the Rural Electrification Act relates only to receiving REA loan funds for the provision of electric service. That restriction with respect to electric service prohibits REA funds from being used for electric service to persons in "any area of the United States not included within the boundaries of any city, village, or borough having in excess of fifteen hundred inhabitants" at the time that REA funds were first provided to serve that area.

Many rural electric cooperatives are deeply involved in community and economic development efforts. In many cases these efforts directly benefit somewhat larger communities which do not receive electric service from the cooperative. However, the cooperatives and their rural consumer/members also benefit whenever increased job and income opportunities develop in nearby towns and communities.

We strongly encourage all of our cooperatives to be active and constructive members of all local development alliances. Your concept of "community clusters" is entirely consistent with this approach. We would welcome any opportunities to work with you on this or any other economic development strategies.

Mr. **Grandy**. Now let me ask you one more thing, and, again, I did not get through your entire statement, so you might have included it. But it is my experience that one of the problems that we have is we very often, in an effort to create some kind of development program—whether it is a loan or a grant—will create the program but make it so difficult to access, that you absolutely and unequivocally frustrate that private entrepreneur, or even that community that is trying to leverage some of their community funds with Federal funds.

And the one that is of glaring significance in Iowa, particularly, is a program called the Financing Rural Economic Development Program, or, sadly, the FRED Program, which, quite honestly, is a great idea.

It was designed to provide low-interest loans to nonfarm businesses in areas with populations less than 20,000 people, and to assist States in establishing their own rural financing programs.

The problem has been, from moving to the State to the Federal level, and back, so many entrepreneurs with good ideas and strong community support—and by that I mean money—have not been able to get their projects off the ground, and I am just wondering what thoughts you have about trying to streamline access to these programs, so that we do not necessarily have to create a new network of programs, but perhaps redraft the ones that we have.

Mr. **Bergland**. I am not familiar with the program you mention, Mr. Grandy, but it sounds like it is a program that has a means test. They are reserving money only for the most desperate situations, or communities. When you get into the means-testing business, you have got redtape coming out of your ears because they have to meet the criteria established by the law, either in terms of per capita income, unemployment, underemployment, or whatever. Going through all these tests is a very tough business.

And I have no quarrel with reserving programs for that slice of community action that needs some special treatment, special help. Our main recommendation, however, comes for a slice of that market that does not require that sort of subsidy level; that does not require a poverty test to qualify.

We have got a lot of trouble out there, that cannot meet a poverty test, exactly. We are not talking about people that are broke. We are talking about people that need help.

So the extent to which you can reduce that redtape the better, and if there is no means testing, you eliminate most of it.

Mr. **Grandy**. Mr. Chairman, I ask the Chairman's indulgence to ask one more question, if I could.

Mr. **English**. Without objection.

Mr. **Grandy**. Thank you. Because you brought something up about these means tests. The FRED Program specifically, I do not think is necessarily based on an income standard or a poverty level, but it is based on a job-creation component which very often precludes a lot of small communities because they cannot meet the criteria to create enough jobs.

Very often, economic development comes first, and the job growth comes later. I am wondering if, when we draft our rural development initiative, whether we should perhaps pull away from requiring or mandating certain job-creation components, because I think that intrudes upon the success of the program.

Mr. **Bergland**. Well, it complicates matters substantially. In this business, we are going to have to take some prudent risk, and we are going to have to invest time and effort in measures that do not come to fruition for some reason, and I see nothing really wrong with that. And so we have to be very careful on the job component. We do want jobs, of course. That is what rural development is all about.

We are not interested in speculation, and neither are you. So we have to draw rules that permit the maximum local flexibility on how many jobs are created, and how long it might take.

The business of development and jobs go hand-in-hand. You cannot get one without the other. The problem is, if we do not have the basic facilities, we cannot get the business investments to come into the community. If they do not have water and sewer, and roads and schools, and hospitals, private investments will not go there.

Mr. **Grandy**. Thank you, Mr. Chairman. Mr. Bergland, thank you.

Mr. **English**. Mr. Espy.

Mr. **Espy**. Thank you, Mr. Chairman. Before I address the Secretary, I just want to ask the gentleman from Iowa if I understand him correctly, when he said that this community in your district leveraged $14 into a 100-some thousand?

Mr. **Grandy**. The gentleman is correct. Seven communities pooled their resources, which amounted to $14——

Mr. **Espy**. $2 apiece?

Mr. **Grandy** [continuing]. And over a period of about 3 years have, through promotional activities and some community involvement, and now, of course, the ability to access some private grants, and some Federal funds, have turned that into roughly $150,000.

Mr. **Espy**. Well, to the gentleman I would say I have some loaves and fishes at home. I would love to come to his district. [Laughter.]

Thank you, Mr. Chairman, for recognizing me, and to the Secretary, Mr. Bergland, I thank you for your testimony. We all know of your involvement, you have a wealth of experience in this area, and we appreciate your good words this morning.

You said some things that struck some cords in me. First, is the fact that the most necessary component of all of this is community willingness to accept a program. I really think, Mr. Bergland, that we have that now, all over the country. We have had divisions heretofore, but the needs are so great and I think that has forced some unity in these communities, and so we have gotten beyond that.

Second, you talked about rural distance learning. I also agree, and applaud this idea because it is being tried now in some of the public schools in my district where the dropout rates are just tremendous.

There is some central broadcast unit out of Virginia, and they selected three areas—mathematics, and a couple other areas—and they have interactive learning programs with some of the students in some of the public schools in my district, that heretofore were not able to attract the kind of teachers to teach these disciplines.

It is working marvelously, and to whatever extent we can expand on this idea, I would be all for it. Third, I want to thank you for agreeing to work with me on developing a program for this Lower Mississippi Delta Development Commission, and to my colleagues—I do not know if we have announced it before—but during the waning days of the 100th Congress, we were able to ask the Conference Committee on Agriculture in the budget resolution to approve $3 million to create a commission which would, as a tool, take the poorest 186 counties in America, and develop a program to develop them over the next 18 months.

This commission was created, authorized in the other body, and as I said, we did find $3 million to fund its work over the next 18 months. It is working. President Reagan selected two members of that commission, and the Governors of the seven affected States on the Mississippi River corridor did either select themselves or select surrogates to act as members.

It is working, and I would like to thank you for agreeing to work with me to make sure this thing really means something. Now, a couple of questions in the time I have remaining.

As you are aware, the Rural Partnerships Act of 1989, which was recently introduced in the Senate, there are provisions which would allow rural electric cooperatives to be involved in more rural development activities.

I want to know how you feel about that. Have you read the bill, if you are familiar with it, and if you are, if you could give us your review of it.

Mr. BERGLAND. Yes, Mr. Espy, I read the bill and am familiar with the provisions, and we support them. They are not all that profound, in that there is not a whole lot of money—and we are not asking for a whole lot of money—but it does put certain additional responsibilities in the cooperatives that we are prepared to assume.

Mr. ESPY. Thank you. But I am just saying, if you approve of this we could perhaps use some of the ideas contained therein in our legislation on this side.

Also, financing is so difficult, and we all know that, and we have talked about that. I am familiar with a couple of States, Texas principally among them, where the commissioner of agriculture, and the Texas State treasurer got together and they agreed to try a pilot program with the commercial banks, where for consideration of State deposits for a interest year, which would be less than they would get normally, the participating bank would agree to form a risk pool.

In Texas' case, I know that the loan applications they would consider would be in the nature of financing alternative crop development. If we could do that on the State level, on the Federal level, I think it would be a great idea. I want to know if you have heard of this idea, and, if so, what do you think of this.

Mr. BERGLAND. I have, and I think it is an idea that has merit. There are at least 30 States that have something going, that might be called "rural development." Any Federal program needs to build on the experience of the State and local leadership, and fill in the niche.

I think the Federal plan needs to be sure that it complements every State, and picks up where the State simply has to leave off, and not duplicate the effort.

The Texas plan is quite different than the plan in South Carolina, or in Oklahoma, or in Michigan. I mean, each one is doing its own thing, and we support them all.

Mr. ESPY. Thank you.

Mr. BERGLAND. And I think that needs to be, because you cannot use a standard cookie-cutter scheme to deal with Glacier, MT and Fort Myers, FL with the same strategy. You have got a whole different world.

Mr. ESPY. That is true. Thank you.

Mr. ENGLISH. Mr. Staggers.

Mr. STAGGERS. I pass right now, Mr. Chairman.

Mr. ENGLISH. Mr. Sarpalius.

Mr. SARPALIUS. Thank you, Mr. Chairman. Mr. Secretary, I am a new member of this body, and I have heard a great deal about you through the years, and have a tremendous amount of respect for you.

Twenty years ago was my first time to come to Washington, as a young boy on a trip sponsored by the Texas electric cooperatives. I came here, and I stood at the Lincoln Memorial and was very impressed. I had my picture made with my Congressman. Little did I know that down the road, I would be running against that very same man.

But I learned at a young age, that one of the tremendous assets that your organization has is in its ability to educate young people, and your interest in young people, especially young people within the communities.

And we do have a tremendous problem there with close to a third of our kids quitting school, and fortunately, that problem is not as severe in rural areas as it is in urban areas.

But the questions I wanted to ask—and I am new to this game and maybe you can help educate me—but in rural areas where there is a lot of agriculture that is being produced, can the electric cooperatives offer any type of lower rate, or type of an incentive rate for a company that wants to come in and maybe process agricultural products, or do some type of business that would be attracted into that area, hopefully in the area of economic development?

Mr. BERGLAND. We do offer incentive rates. We are careful, however, to be sure that we offer the same rate to all who apply, so that we do not create a competitive advantage, disadvantage, among competing businesses. The rate which is offered, however, does not constitute a burden on the rest of the ratepayers. We can make certain concessions for, particularly, a commercial load, because we can deliver more kilowatt hours over the same line, and we reduce the embedded cost per kilowatt hour, and that is taken into account in a special rate.

It is a significant matter, however, in community development, and we do it all the time.

Mr. SARPALIUS. Do any co-ops make any type of loans for businesses that want to come in that area?

Mr. **Bergland**. Well, some. We make loans for conservation of energy and electricity, used to make loans—and we are recommending we go back to this arrangement—it is in my testimony—where we pay the U.S. Treasury about $1 billion a year in principal and interest on REA loans that have been made over the years, and there is a section in the law which used to be used that would allow the cooperative to not make its payment to REA but use that payment instead for local community development purposes.

My own town, if I could use it, 1959, I think it was, a local manufacturer of windows made from wood cut from trees in the community burned down—it was a family enterprise—and they were unable to rebuild, and the cooperative used that section 12 and lent them $240,000 to buy electric-powered machinery, and they stayed in business and now they employ 4,000 people. They took a chance. That program is no longer available, and we think it could be used effectively.

Mr. **Sarpalius**. Thank you.

Mr. **Tallon** [acting chairman]. Congressman Staggers.

Mr. **Staggers**. Thank you, Mr. Chairman. To Mr. Sarpalius, I would say that we may be able to work an arrangement here. I know that he knows that West Virginia is losing population, and so when one of those grade school or high school students come and tell you that they want to run for Congress, just tell them to move to West Virginia. [Laughter.]

Mr. Bergland, I want to echo what Chairman English said. I agree with most of everything you have said. I do have a few questions, though. I hope they do not sound like I am in total disagreement, because I think that you make some very valid points.

The first point you make about education, you mentioned about technology, and I think that has to be pursued, but I do not think that we can look for any easy answers to the education problem. There is really no substitute for good teachers, and I think that is a part of the problem—which you identify—and to compete, if we are going to compete in rural areas, we need to make that investment.

I hope that you are not saying that there is a technological answer to all the problems within the education problem in rural America.

Mr. **Bergland**. There is no simple answer to this. There is a structural problem. The dropout rate is very high, and we all know that teacher salaries are a part of it. The advantage in this new electronic technology is that you can bring a program to a school that maybe only has three kids, that really have the capacity to study calculus, and the way things are now they will not get it.

Mr. **Staggers**. Unfortunately, demographics show that we are going to face a teacher shortage, nationwide, not just in rural America but in urban America, too, and so I think that that can be a complement to part of the solutions to the education problem. But I think that we really do need to focus on the teachers themselves.

Mr. **Bergland**. We have been in touch with the National Education Association and the School Board Association, and school administrators, and said we will lend our support to any plan that seems to make sense. We do not know how to deal with this problem, Mr. Staggers, but we see the consequences of this neglect, and it is a disaster.

Mr. **Staggers**. I agree. I agree with you. As I said, I did not think we disagreed.

Mr. **Bergland**. No, sir; we do not.

Mr. **Staggers**. I just wanted to make the point. The second point that I wanted to question you about. You mentioned about the water and waste disposal, the financing. You mentioned that you all do some small amount of funding through rural electric systems to provide the water and waste services to the ones that you enumerate in your statement.

I have two questions. I know that in some communities, or extension of those systems, that the fees to the consumers in servicing the expensive type of proposals are not realistic. I mean, the people then become against the programs, and I guess my question would be, Are you aware of less-expensive ways to provide the same type of services as opposed to the expansion of an urban system, or an existing system? And are these large systems the only answer, or are there different ways in which we can——

Mr. **Bergland**. Are you talking about the water business?

Water or sewer, I do not know the answer, Mr. Staggers. But, there will be an expert on this panel in a moment. You could ask him.

Mr. **Staggers**. All right. Well, I noticed that in your statement, and I was worried about that, that the small amount, once again, may not be the answer to the problem. I know that that——

Mr. **Bergland**. The—I am sorry.

Mr. **Staggers**. Go ahead.

Mr. **Bergland**. I was just going to comment, that the small amount we recommended would be to fill in where Farmers Home and the rural water systems are not now in existence, where there is no structure at all, and we have areas of the country where there is nothing, and we are saying the co-ops can help fill in the blank spots, but we need some help to do it.

Mr. **Staggers**. Two more points. The one point that I would make—and it follows on Mr. Grandy's comments, and it is from a different standpoint—he mentioned about the "redtape" and the $14. In that situation, where there is only $14 you recommend that any new program include the requirement that private capital be used along with the Federal funds.

What requirements are you looking at? For instance, in that situation, if there has to be 50 percent or 40 percent, that situation, where the $14 would not qualify—are you thinking about those type of percentages that would meet the requirements before you would get into this capital——

Mr. **Bergland**. Well, I had never heard of the example he used. I mean, that is an extraordinary case of leveraging. We are never that good. We think that something like 4, 5 to 1 is a pretty good leverage ratio. For every $1 in private money we put in, we ought to be able to leverage it four or five times. I think SBA has a pretty good formula on that, and I do not know all the details—we have yet to find out—but there is a ratio there where a local contribution is required, and then it can be leveraged with these SBA loan support arrangements.

Mr. Staggers. What if there is a dire need, everyone agrees there is a dire need, and there is only $14 of private money that you could have. Would you look to exceptions, or would you recommend that we look to exceptions?

Mr. Bergland. Well, I think exceptions need to be made for those extraordinary circumstances. The problems we have with the loan and grant programs that depend on a means test is that the amount of money available for the whole thing is going to be very small, unfortunately.

We are not opposed to programs dealing with extreme poverty, and dealing with extraordinary hardship. We are in favor of that. We are looking at something one step beyond that, however, and that is what my testimony speaks to.

Mr. Staggers. I would ask unanimous consent for one additional question.

Mr. English. Without objection.

Mr. Staggers. I thank the chairman. The other thing is the budget. You congratulate us on the budget—and no offense to my colleague sitting to my right, I know that he is a part of the Budget Committee—but what about next year? I mean, you mentioned that we have additional money, but it would seem to me that next year, that the assumptions are unrealistic in both the administration and the congressional budget.

Do you foresee that this is going to be even more difficult next year?

Mr. Bergland. I am afraid it will, Mr. Staggers. I am afraid it is going to require eternal vigilance, and it is going to require that those of us who advocate programs come with the full knowledge that this is going to be a tough business, and that we have to be prudent in our requests. We have to be willing and able to put our own money—as they say in Minnesota—where our mouth is. Because a big argument can be made that if the locals are not willing to risk anything, why should the Feds? There is some logic to that.

Mr. Staggers. Thank you.

Mr. Bergland. Now having said that, however, we have got to take in mind that the capacity in some cases is simply sweat equity. We have communities where cash is going to be very near impossible to find but they are willing to risk their prestige, and put their time and their effort, in-kind contributions. Sweat equity is as important as cash in any enterprise, in my judgment probably is more important, and the program needs to take whatever contribution the community has to offer.

Mr. Staggers. I agree with that. I thank the chairman. Thank you.

Mr. English. Thank you very much, Mr. Staggers. We appreciate that. Mr. Secretary, we deeply appreciate your testimony and certainly you have given us some good suggestions. Thanks very much for coming up.

Mr. Bergland. Thank you, Mr. Chairman.

Mr. English. Thank you. Let me say to the committee before I introduce our witness, that in looking at the witness list I was struck by the fact that our next three witnesses happen to be from the State of Oklahoma. I am sure that no one else made that observation. I simply want to state that I did not select the witnesses for these organizations and for this hearing, but I am delighted to see that they think that their members from Oklahoma are the folks that they want to represent their organizations at this hearing.

Our next witness will be Mr. William R. Allen, Jr., who is president and chief executive officer of Union Equity Cooperative Exchange in Enid, OK, testifying on behalf of the National Council of Farmer Cooperatives.

Bill, we want to welcome you here today and I am looking forward to your testimony. We appreciate you coming up from Enid to give us the benefit of your views, and that of the National Council of Farmer Cooperatives, so we will be happy to receive your testimony.

STATEMENT OF WILLIAM R. ALLEN, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNION EQUITY COOPERATIVE EXCHANGE, ON BEHALF OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. ALLEN. Thank you, Mr. Chairman. We do appreciate this opportunity to appear today on this very, very important subject and objective. We have submitted a formal statement, which I will not read at this time, but would respectfully ask that you accept into the record.

Mr. ENGLISH. Without objection, your full and complete written testimony will be made a part of the record.

Mr. ALLEN. Thank you, Mr. Chairman.

To briefly summarize the content thereof, I would say that we think these are exciting times. Never before do I recall having heard nor read of so many people and factions having an interest in the economic development of rural America, the infrastructure, if you will, and I think that is exciting.

I think there is opportunity there, and we salute and congratulate you on tackling this difficult task; you and your colleagues on this subcommittee. There seems to be interest from various State levels as well as yourselves here in Congress. Academia, various industrial groups.

We think that that provides some opportunity for some cohesive effort, and no doubt that is what you are trying to get your arms about in this effort. The opportunity seems there, with so many interests, and if we can somehow together harness those interests, and get about that synergy in some cohesive manner.

To briefly summarize the points of our paper, we believe that a real key, Mr. Chairman, to rural development and economic recovery and stability—one real key is a continuation of a strong farm industry—farming industry, agriculture in total, if you will. There has been recovery since the 1985 Farm Act.

We think that recovery desperately needs to be continued. In most rural areas in Oklahoma, Kansas, and Texas, those which we are familiar with as a regional cooperative, the backbone of many of those does seem to be the health and viability of the farming community, and that strength and viability which has returned, to some substantial degree, needs to be continued and fostered because that economic activity allows other industries within each respective rural community to feed upon itself, if you will, and retain, hopefully, the existing industry, and maybe invite, attract, solicit, new industry to come in.

But we think a key is, a strong production, because of the various positive fallouts from a strong and healthy farming community. In addition to that feeding on itself, if you will, economically speaking, the supplies used by the farm as well as the product derived from the farm substantially support those rural areas.

We think this might be something that some may overlook as a real opportunity, and that is to continue in the farming recovery. It does, however, depend on a continuing strong production to meet the strong domestic and export demand.

We believe there are branch lines of railroads that offer some opportunity, important opportunity to retain existing industry and to have hope of soliciting new industry to come in to one or several areas.

With some of the deregulation efforts, railroads are being economically driven to study whether or not each of their branch-line operations can and should be continued, and some we think may be marginal.

Perhaps this is an area where we, together, can look. I say "together" from the rural communities along a given branch line as well with the help of you and your colleagues, and if it is truly marginal, hopefully, the branch lines can be saved to permit that economic strength in those rural areas. To do otherwise is going to cause continued erosion, we think, of that economic area.

I would like to briefly say on the health-care needs, and educational needs, we think there are some real opportunities to service those needs. Perhaps there can be some sharing of the communities in each of these areas as well as hopefully case studies. Some land grant institutions can help. With whatever funding that might come out of the Federal sector, there seems to be an opportunity from the university level to work with each affected rural area to develop economic activity.

We think the deregulation has caused some ill effect, whether it be from utilities or transportation. It seems rural America, without the metropolitan, heavier competition—and these sectors do find it difficult to get service and when they do, because of the lack of effective competition, the price they pay for these services is a dear one.

In closing, Mr. Chairman, we do appreciate you tackling this difficult subject. If we cannot reduce this erosion from rural America, this erosion of economic activity, we think then we will be, as a Nation, confronted with resolving the issue in the cities, in the metropolitan areas because as erosion continues, if we cannot address it, it will surely form, from that exodus from rural America, and move the problem, if you will, into the larger metropolitan areas.

We think it makes a lot more sense—as you are doing now—to address it in its infancy, if you will, while it is still manageable in rural America. Thank you for this opportunity to appear this morning.

[The prepared statement of Mr. Allen appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Bill. I appreciate that. I noticed in your written statement you focus a good deal on human resource development and leadership in so many of these communities. Also the previous witness, Bob Bergland, hit that same theme, that we have got to have leadership in these communities. That that is going to be the key.

I think that you are absolutely right. We have, with the cooperatives, available in most every rural community, a good deal of leadership. In the past, the cooperatives have acted as a kind of catalyst in many of these communities.

Do you think that the cooperatives themselves would be willing to provide some of the leadership that is going to be necessary in these communities to deal with some of these programs, to take advantage of whatever legislation we are able to produce, and whatever help the Federal Government might be able to give some of these communities?

Mr. **Allen**. I would think so; yes, sir. And I would hope so. They are a nucleus, if you will, of that rural economic activity, from employment as well as industrial base, and certainly have a direct interest. I think that has a good opportunity for leadership, and someone mentioned the other day—it may seem far-removed—in that regard, perhaps learn about one of the biblical stories about the story of the talents. Maybe whatever funds can be available from Federal and State, in combination, perhaps could be challenged, one or a group of rural areas maybe with elected officials. I say "officials." Persons, whether they be from cooperatives, or a local chamber of commerce, or persons interested in that economic activity, and survival, if you will.

And challenge them with administering, whether it is turning $14 into $150,000. I think that is an excellent illustration, and opportunity of what can be done; but I think there is also an opportunity, in addition to the cooperative leadership, to offer a challenge for the land grant institution, or other universities—a challenge for young people, whether they are in the business sector, or ag econ, to get involved, and have an opportunity and a challenge as a part of the classroom extension. There seems to be some opportunity here to tap that brain power, if you will.

Mr. **English**. And as far as the cooperatives themselves, if we are able to move in a program that would encourage and assist the so-called cottage industry concept, the small businesses that are starting up, that would employ a number of people in the local community, would you think the cooperatives would be willing to provide a helping hand as far as management expertise and advice about where they could go to seek assistance?

Mr. **Allen**. I absolutely agree with that and I do think that is a good opportunity, and there seems to be interest already before these hearings in doing that, and it is to prepare for the future and strengthen these local cooperatives who are participating, and I think the avenue is open for others, once they are aware of it, who want to partake.

It is part of that building from within.

Mr. **English**. Mr. Holloway.

Mr. **Holloway**. Thank you, Mr. Allen, for your testimony.

Just one short question. As limited as money is, and I know with what the chairman has tried to do, with our cooperation, in keeping some money for rural development, if there was only enough money to do one thing in rural development, what would you say that we should proceed with at our highest speed, to try to help the economies of the rural areas?

Mr. ALLEN. We have talked about so many problems and needs in rural America, which means each one, and for me to try to say medical care, or educational, or transportation, or utility, I am afraid that would be a question for Solomon.

Perhaps I would have to say if there could only be a limited amount of money, I think the best way to manage it—and I am shooting from the hip here, without much forethought—would be for each given area, recipient for that money, or a group of geographically close communities, to elect a commission of five or seven who—you know—any peer group knows who the leaders are and who has the most interest—and challenge them with the best management and use, from a risk standpoint, of those funds, and hopefully generate from within community activity through contributions, through industrial input and activity, as the chairman talked about, and hopefully enhance the return from that seedling, if you will, whether it be from Federal funds or State funds.

I would think that would be better, and then each area would have the autonomy, the discretion, if you will, to select the most important area on a priority scale of one through six, for sake of discussion, and I think to challenge them gives them the autonomy and the responsibility to make the wisest investment of those funds.

Mr. HOLLOWAY. Thank you. I know it is a tremendous problem because I have given it a lot of thought, and it is really hard to decide where do you start. I mean, really, What do you do first?, because it is not a problem unique to me. It is to every one of us on this committee, as well as probably half the Congressmen that are serving here.

It is really a tremendous problem, and we do not have the resources to fight it. I mean, it is almost like picking away, or like the Chinese trying to throw a rock and knock a tank out. That is about what we are trying to do here. But we appreciate your testimony.

Mr. ALLEN. If I might add, Mr. Chairman, the reason I answered it as I did is because I think you had a good question, and it is a real part of the problem. But to give each the responsibility and the task is important, we think, because the many, many different areas, communities, if you will, throughout rural America have differing needs, and that would allow them that autonomy, to select and be responsible for those differences.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman. I really do not have a question for Mr. Allen. I just want to compliment him for his testimony and thank him for his presence, and just tell the gentleman that I agree with him, that we must keep production agriculture strong and we are here today talking about rural development, and included therein are ways in which we can develop the increase in off-farm jobs. But I just want to assure the gentleman, that though this is not on the table today, we are the Agriculture Committee, and the dominant part of what we do is keeping programs strong, viable, and healthy. I mean, that is our first order of business, and it all is included together. So, I thank the gentleman for his testimony and thank him for being here.

Mr. ALLEN. Thank you.

Mr. ENGLISH. Mr. Staggers.

Mr. STAGGERS. Thank you, Mr. Chairman. I want to make a couple comments, one in response to Mr. Holloway.

It seems ironic to me that we have a $5 trillion economy. We have set records in mankind. We are the richest Nation that mankind has ever seen, and yet we say that we cannot take care of our people. That seems somewhat ironic to me when we talk about some of the problems which we are facing in rural America.

You mentioned about the education. Let me ask you: When you talk about job training and retraining, are you talking about vocational education and adult education? Is that what you would be——

Mr. ALLEN. Inclusive. Yes, sir.

Mr. STAGGERS. I know that there is a problem with the Staggers bill—it was not this Staggers that did that legislation—and that is another committee, so we probably, in this committee, will not be able to deal with captive shippers, which you do identify, but I am aware of that problem. I think all of us are aware of that problem, because it is such a thorny issue.

I think if the ICC was doing its job, we would all be satisfied. It is how we get them to do the job.

You identified the water, fire protection, sewage, and sewage treatment facilities being included as a part of the problem. How much should be we focusing on that as a committee, and where would you propose we get the resources?

Mr. ALLEN. In addition to any financing that would come from the Federal side, I would hope that the cooperative bank which was founded, started in January of this year—the cohesiveness of all the cooperative banks, in 10 regions—not only does have the interest I think, but would even have some of the financing capability, and would view it as a business transaction.

And I would hope there could be some ability there, as a source of funding. We would be supportive of that as part owners of the cooperative bank, as a regional cooperative, and those 470 some-odd local cooperative members of ours, who are also members. I think there is a potential there, and as long as their expanded financing activity is not in direct competition with cooperative members, I would think it would meet general support. But I can only say that as one member.

Mr. STAGGERS. I just see that the problem with infrastructure is so large across the Nation. We are not doing anything about it. If we were extending the life of the infrastructure, trying to solve the problem that way—it is falling apart everywhere. The reason I asked the question: I want to know whether anybody has a complete handle on how much it is going to cost to restructure our infrastructure?

Mr. ALLEN. I hate to be repetitive, but I think a large part of that financing, strengthening, if you will, restructuring, with economic vigor, starts with a strong farming community, with a retention of—for example—export market share, recently recovered, since the spring of 1987 on wheat exports. During these past 2 years, that demand drew market recovery which had been lost in the prior 6 or 7 years of this decade. That recovery, the retention of that needs to continue, with continued strong production—as your colleague to your right has mentioned—and that sets off the chain reaction of positive fallout, if you will, throughout the rural community.

There is a lot of that by we Americans recognizing the real strength of our largest remaining industry, that is, agriculture.

Mr. STAGGERS. I agree.

Mr. ALLEN. If all of us 245 million Americans could realize that since there is no free lunch, our investment in an enviable food economy, where we only, on average, spend less than 13 percent of our disposable income for a rich choice of food, that can only be supported through a continuing productive agriculture.

Mr. STAGGERS. I agree with you, and I think you made that point very strongly. I do not think anybody is going to disagree with you. The point that I was making is that all these—the effect on the infrastructure, the captive shippers—you mentioned the hospitals—you are not going to stay on the farm if you do not have health care.

If you do not have a hospital, you do not have health care. It is projected that 500-rural hospitals are going to close within the next decade.

I mean, there are obvious problems which are beyond—that is another committee, that has jurisdiction for most of the solutions to that. What we are trying to do is a small part, and I guess most of it is the economic part of providing the solutions, be it water, sewer, highways, whatever.

One final question. You, in your prepared statement, asked three questions at the end. Would you chance to try to give us the answers? You posed them to us. I am turning it back to you.

Mr. ALLEN. Well, I do not have the absolute answer. We pose them as a positive, not in a critical way but in a positive way, as if we together can find the answers, it will hopefully help resolve the issue. I really want to make that point, that it is not in any way to be critical.

I think the answers lie in addressing this synergy of interest, that is, opportunity, and it is a combination of things. Since the interest is there, a combination of challenging the universities in each geographic area to help; challenging the State officials to help as well as what can be helped from the Federal standpoint.

I think the retention, and then solicitation of new industry can set off an economic chain reaction that is positive and will support at least some degree of enhanced medical and educational activity, and hopefully it can feed on itself, just like the inner, intra, economic activity of each of these communities. I think it is positive, and if we can get the momentum flowing, linked up with a new interest. It seems new, in the last 18, maybe 12 months, but it is going to be a combination of these things.

No one thing can do it because I think the needs are too diverse.

Mr. Staggers. Well, if you have any more thoughts about the coordination, the flexibility, and the accountability, please share it with us. Thank you, Mr. Chairman.

Mr. English. Mr. Penny.

Mr. Penny. No questions.

Mr. English. Mr. Allen, I want to thank you very much for your question. It is a big help to us, and certainly I think it helps us take another step in the right direction in coming up with legislation. We appreciate it. It is very fine.

Mr. Allen. Thank you.

Mr. English. Thank you. Our next witness is Mr. Rob Johnson who is the executive director of the National Rural Water Association. Mr. Johnson is from Duncan, OK. Rob, we want to welcome you here, and we appreciate you coming down and giving us the benefit of your testimony.

STATEMENT OF ROB JOHNSON, EXECUTIVE DIRECTOR, NATIONAL RURAL WATER ASSOCIATION

Mr. Johnson. Mr. Chairman, thank you. It is both an honor, and a great opportunity for me to testify before this committee. I have submitted written testimony and I would ask that that be accepted and entered into the record.

Mr. English. Without objection, it will be made a part of the record.

Mr. Johnson. Thank you very much, Mr. Chairman.

I represent the National Rural Water Association. We are an association of 36 State rural water associations, making, or being comprised of 8,500 rural and small municipal members about this Nation.

Our mission in improving the quality of life in rural America is to see that this product, water, is as available in the rural parts of our Nation as it is here, in Washington, DC.

You asked for specific recommendations, Mr. Chairman. Our primary message is in support of the Farmers Home Loan and Grant Program for water and sewer. Over the past 27 years, with the help of this committee, that program has changed the face of rural America. It has done that by making available only approximately $9.8 billion of loans, and $3.1 billion of grants to over 29,000 loans assisting rural water systems about the country.

These systems have a delinquency of less than 1 percent. We find that remarkable in the Federal Government. We believe that the Farmers Home system provides the backbone of rural community development and we urge you to strengthen and expand upon past Farmers Home efforts.

Our specific recommendations are very straightforward and very simple, and I offer those for your consideration. Those are, first, we would ask you to consider reauthorizing and expanding the Farmers Home Rural Water and Sewer Loan and Grant Programs to the level of $300 million for grants and $600 million for loans.

Second, we would ask you to consider authorizing a rural wastewater circuit rider which would provide at least one circuit rider to each State, and then third, we ask you to consider authorizing a rural ground water and solid waste disposal circuit rider for each State.

These requests are made in light of the current need for adequate and safe drinking water, sewage treatment facilities, and sanitary land facilities in rural communities.

These kinds of things are needed because without these type of facilities, without this type of infrastructure, it is impossible for rural communities to compete with urban areas of our Nation.

The Rural Water Grant and Loan Program is essential to rural environmental quality. There is no other Federal or private loan assistance available to build or improve rural water and wastewater facilities in our country. In addition to this, EPA has eliminated its construction grant programs and substituted a revolving loan fund in States. This will put additional pressure on the Farmers Home Loan and Grant Program because more wastewater systems will be seeking that kind of funding.

In addition, this is at a time when the Clean Water Act, and the Safe Drinking Water Act is becoming more stringent for these smaller communities. You asked a good question. How do we pay? For the wastewater and ground water solid waste circuit rider programs, the costs for covering the entire Nation will be $4 million for each program, or a total of $8 million.

We believe this type of on-site technical assistance will be invaluable for the country, and we think that the funds can be found for that amount of money within the existing budget.

The increase in Farmers Home loan and grants would be significant, and would require budget-shifting under a no-growth budget. I know this committee certainly is aware that 10 years ago, the funding for the Farmers Home Loan and Grant Program was considerably higher than it is now. In 1979, there was $900 million available in loans, and $450 million available in grants for Farmers Home programs.

There is a growing sentiment for environmental protection in this country, and there is little or no chance of improving the environment, the water, the wastewater, or solid waste, without a strong Farmers Home Loan and Grant Program.

The only way we can find to pay for this: If new monies are freed up in the Federal budget, we would ask this program receive top priority.

What can our organization do? We are truly a grassroots organization. We are one of these groups that is located in a rural area of our Nation, in the middle of the country, in Oklahoma. Our headquarters is not in Washington, DC. And we have over 8,500 members. We have 36 State organizations with 250 to 300 members per State.

Now politically, we will assist, however we can, with our grassroots organization. We can also assist in providing information, publications, technical publications, newsletters, magazines, through our training programs. We have trained over 22,000 people last year, that run these rural facilities.

We have provided on-site technical assistance to in excess of 43,000 of these people over the last year.

To end, I would want to interject one note of caution in your considering this legislation. We realize there is a growing interest in both the rural electric cooperatives and the Federal Farm Credit Bank in providing funding for rural water systems.

There are provisions in the Senate version of this legislation authorizing the increased participation of these organizations.

Our associations welcome all the help we can get in improving rural water systems. However, we strongly believe that the Farmers Home Rural Water Grant and Loan Program is the most viable and effective method of stimulating the greatest development for the funds invested.

Rural electric has always been a partner with rural water systems, but establishing a new, federally-assisted Rural Water Program with different rules, and financing arrangements could set an unneeded precedent in these tight budget times.

Now over the last few years, we have worked with Congress to fund the Farmers Home Program to have loans and grants available, but also to require that these communities use as many of their own resources as possible, and rely on Federal help only when absolutely necessary.

Any change in this balance through the creation of new programs should be carefully analyzed. Now Mr. Chairman, I wish to thank you for the opportunity to appear before this committee. We stand as an eager partner in helping your rural development efforts.

[The prepared statement of Mr. Johnson appears at the conclusion of the hearing.]

Mr. **ENGLISH**. Thank you very much, Rob. It is a fine statement. There is no question that in more and more of our rural communities water is getting to be a critical issue. They have to have good water in order to grow and develop, and we are finding that, as I mentioned, a growing problem in that area. The issue of ground water pollution is one that will likely involve this subcommittee, and next year with the farm bill.

That, too, I would think is going to be a critical issue as far as your organization is concerned. Have you any suggestions or thoughts with regard to the ground water pollution problem?

As I understand it, we are looking at some 90 to 95 percent of our rural communities that depend on ground water and that water is polluted. Roughly half of our urban areas around this country face that kind of problem.

Do you have any suggestions with regard to that issue?

Mr. **JOHNSON**. Yes, Mr. Chairman. I do. EPA, by the way, is conducting a pesticide survey of the Nation. Preliminary results of that are both good and bad. The good is, they have not found as much pollution as they thought they would. The bad is, they are finding traces of pesticides in a lot of the ground water.

We think that a circuit rider type program to assist small communities that may have this problem, or need assistance in protecting their ground water is what is going to happen in the future. Certainly, the small system I live on in a little town called Loco, OK, that has 85 families, has a well next to a wheat field, and is certainly subject to whatever is put on the ground seeping into that well.

But there are certainly a variety of strategies that we can use to protect our ground water, but it is going to take on-site assistance, in my estimation, to solve that problem.

Mr. ENGLISH. Well, I would agree with you: leadership is very quickly evolving in these hearings as a major ingredient in dealing with any rural development problems.

No matter what programs we come up with, the community has to have some leadership in order to take advantage of that and to benefit from it, and I think that the circuit rider program is one that certainly does that, and gives some assistance.

Also it was mentioned, and it is certainly true, that we have got a hodgepodge of different kinds of programs today, that in one way or another may benefit rural development, and also may be of assistance to that. Certainly your program is a part of the Farmers Home Program.

There is some thought, as was mentioned by an earlier witness, Bob Bergland, about some programs that relate to rural development that should be pulled under one tent.

There is a Rural Development Agency over in the Department of Agriculture. There is not a whole lot there.

What would you think about taking programs such as yours, and as this applies, to the Farmers Home Administration, and pulling that under one tent, and trying to fit that together and complement it with other programs of like kind?

Mr. JOHNSON. I think we could likely support that, but I will say, in a word of caution, loan asset sales that occurred because the Omnibus Budget Act of 1986, and Farmers Home loans were one of the major things that were sold—Forbes magazine called that the best loan in the Federal Government because of its delinquency rate and the security of those loans.

The Farmers Home Program is working very well. I would be reluctant to see that changed very much. If it could be taken intact and put in a rural development agency, that would sound fine, but I would caution that that program not be changed a great deal.

If it has a problem, it is not enough funds available. Currently, Farmers Home has an $800 million backlog of loans, and a $300 million in grant backlog. Their problem is there is not enough capital to loan to build what needs to be built.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman. I also want to thank you for appearing here this morning, and compliment you on your statement, Mr. Johnson.

In your statement, you are asking for an increase in the authorization for the Farmers Home Grant and Loan Program from the present $154 million to $300 million, and the loan program from $340 million to $600 million.

How did you determine this increase? You just want us to double the appropriation, the authorization, or is it based on loan requests?

Mr. JOHNSON. Yes, sir. In part, both of those. The backlog that I mentioned 1 minute ago, and, second, there are some things occurring that will be happening over the next 10 years.

The Safe Drinking Water Act regulations written by EPA will affect, will cause 80 percent of the water systems in this Nation to add additional treatment. The cost for that, by EPA's estimate, is $3.5 billion in capital costs. Our estimate is $6.153 billion. Annual operating cost, on top of that. EPA's estimate was $614 million; our estimate is $720 million.

So the upcoming need for capital in rural areas, or access to capital is overwhelming, and I do not know where our small communities are going to find the money.

Mr. Espy. The gentleman is asking for an increase in money. I just want to relate to him how difficult it was just to maintain the status quo. In addition to sitting on this committee, I am a member of the Budget Committee, and if the gentleman could have been sitting with me in January, when former President Reagan submitted his last budget which was adopted by our incumbent President, there would not have been a Farmers Home Rural and Water Development Program in this year's budget.

I mean, there was a tremendous slash in the money requested for this fiscal year for those programs, and if we had not yelled and screamed, and done a good job of keeping this program going, it would not have been there at all.

Also, you seem to think that the problem is not having enough money. I also would like to relate to the gentleman a point I made last night in our special order.

There is a community in my district, in Mississippi. About 70 families live there. It is called Blue Hill, MS. They have never had running water at all. Never. Two or three homes, two or three families have wells. About five or six more have cisterns. But the majority of the families living in this area have never had running water.

Mr. Chairman, they have to go and take a bucket, and walk 1 mile to a stream. There is a 12-foot embankment, so it is a steep incline, and they cannot climb down in there and dip it personally. They have to take a bucket, and attach a rope to the end, and drop it into a muddy bacteria-infested stream, walk back, because the road is not passable, and cook it in order to try to purify it to some degree, and use it for cleaning, cooking, and bathing.

In America of 1989, in this century, I just find that incredible, that we have to do that, which raises my point.

This community is organized. This community has a rural water association. This rural water association, for the last 17 years, has tried to get the Farmers Home Administration in my State to grant them money under this Grant Program and Loan Program. It was not until last year, when we got involved, that we prevailed upon them to go ahead and fund this, and we got a $150,000 grant, and a $50,000 loan.

I submit to you that the problem is not just money; the problem is an attitude. For an administration to submit a budget which would deny complete funding for a program, and then for that attitude to filter down to the local area, and for them to take the money they have and not grant it to areas in desperate need.

I just want to say to you, sir, since you are the president, that perhaps money is a problem, no doubt about that, but we do have some money. I think that money they do have can be used more wisely, and it is not because they have an improper attitude.

Thank you, Mr. Chairman.

Mr. **English**. Mr. Penny.

[No response.]

Mr. **English**. Ms. Long.

[No response.]

Mr. **English**. Thank you very much. Rob, I really appreciate your testimony. I think, again, you have helped us out a good deal, and given us some suggestions that we will want to consider very carefully. I think you have raised some good points, and so we deeply appreciate your testimony. It is a big help.

Mr. **Johnson**. Thank you.

Mr. **English**. Our next witness is Ms. Margaret Goatcher who is president of the Cimarron Telephone Co. in Mannford, OK, and the first vice president of the Organization for the Protection and Advancement of Small Telephone Companies.

Margaret, we want to welcome you here today, and we appreciate you joining us. I understand that you are being accompanied by Mr. John Rose, who is executive vice president of OPASTCO. Is that right?

Ms. **Goatcher**. Yes, sir.

Mr. **English**. We want to welcome you both. I am looking forward to your testimony. If you would care to summarize your testimony, without objection, your complete written testimony will be made a part of the record.

STATEMENT OF MARGARET GOATCHER, PRESIDENT, CIMARRON TELEPHONE CO., AND FIRST VICE PRESIDENT, ORGANIZATION FOR THE PROTECTION AND ADVANCEMENT OF SMALL TELEPHONE COMPANIES [OPASTCO], ACCOMPANIED BY JOHN N. ROSE, EXECUTIVE VICE PRESIDENT, OPASTCO

Ms. **Goatcher**. I appreciate that very much, sir, and it is indeed a pleasure, and a privilege, for us to be here this morning to speak to you on behalf of rural development in the telecommunications field, and especially because you are one of our native Oklahomans.

I am Margaret Goatcher, president of Cimmaron Telephone Co., and the first vice president of OPASTCO, which is an Organization for the Protection and Advancement of Small Telephone Companies, and our association is made up of about 400 telephone companies and cooperatives.

Each one of these systems, their customer service base is less than 50,000 customers, yet collectively, we serve 1.5 million customers in rural America.

Mr. Chairman, OPASTCO supports rural development in the communities that our members serve, and the communities throughout the Nation.

In fact we recognized this in a very special way, in January of this year. OPASTCO established a foundation, the Fund for Rural Education and Development. We also refer to our organization as FRED, too, but in no way is it connected to Mr. Grandy's.

The principal activity is sponsoring programs related to communications, social and economic conditions of rural areas. It is important that all parts of our country, including rural areas, have the infrastructure necessary for the United States to compete in world markets.

To increase the potential for rural development, we must look to newer segments of our economy, such as the provision of information goods and services. A state-of-the-art telecommunications infrastructure is essential if rural businesses are to effectively compete, not only in national markets, but in the world markets.

OPASTCO members are very interested in rural development and recognize the need for appropriate actions by the Federal Government and by the State governments.

Indeed, the Federal Government already has in place a most effective Rural Development Program for the telecommunications infrastructure—the Rural Electrification Administration.

And Mr. Chairman, we would like to call your attention to our written testimony, which states the accomplishments of REA, what it has made in communications since its inception in 1949, and the Rural Telephone Bank in 1971.

But REA, in recent years, has backed away from its traditional role of promoting the up-to-date telecommunications infrastructure so necessary for rural development, and OPASTCO believes that REA needs to reverse its current philosophy.

Specifically, the REA should be directed to accomplish the following to assure the state-of-the-art telecommunications for rural areas: Reestablish the policy of promoting the latest technology for rural areas by directing the REA to promote innovations and applications to speed the delivery of information services to rural areas.

To reserve restrictive REA policies on eligibility for loans. To promote full use of the loan authority, and to provide funding for all act purposes, and particularly such as new network capabilities, such as signaling system 7 and equal access.

My company, Cimarron Telephone Co., currently has 6,400 access lines serving 10 exchanges in northeast Oklahoma, and I can honestly say that without the REA financing and the technical assistance, our company could not have achieved the level of facilities and the quality of service that we have today.

But I also emphasize that REA's job is not complete. To bring the information age to rural America, including fiber optics, advanced signaling networks, telephone companies serving rural areas must continue to receive REA funds and technical assistance.

In addition to REA funding and technical assistance, two other Federal policies have promoted state-of-the-art telecommunications in rural areas. While OPASTCO realizes that maintaining and continuing these policies may not be within this subcommittee's jurisdiction, we encourage you to consider the following in the promotion of rural development.

First, pricing of communications services to and from rural areas should remain the same as pricing for the same service in urban areas. Average pricing of interstate toll rates is a past and current FCC policy.

Second, a settlements system that permits rural companies to recover their higher cost of doing business through pooling remains essential. The FCC has implemented a universal service fund for higher-cost small companies to accomplish this need.

The continuation of nationwide rate averaging, and a universal service fund, along with the future viability of REA, are the key elements in not only the maintenance of universal telephone service, but also in the promotion of universal information services, which is imperative for rural development.

For future information services, OPASTCO believes that a nationwide fiber-optics network is essential. Many small telephone companies have already installed fiber for interoffice connectivity, trunking, and other applications, and several of our members already are involved in using two-way interactive television over fiber facilities to enhance curriculum offering to local schools.

Two-way interactive television permits the teacher and the students at remote locations to truly interact as if they were in the same classroom. For this application, fiber technology is superior to other technologies. Several components are necessary to attain this fiber network, and the resulting rural development benefits.

Financing of the actual delivery facilities; the opportunity to offer the services necessary to make the system viable; and having sufficient pricing and revenues to support the systems and services. To realize these components, OPASTCO recommends the following: The REA must be in the forefront of financing and developing the fiber technology.

The FCC must continue its policies of toll rate averaging, pooling for small companies, and universal service. Congress should shift restrictions which reduce the opportunity for small companies to provide entertainment TV. OPASTCO believes this will enhance the prospects for innovation of combining cable and telephone services on fiber.

Any legislation relating to telecommunications in rural areas should not specify technology because technology changes.

One of the key questions that we ask ourselves is, Whether small companies should invest in new facilities to attract new businesses, or should they wait for new businesses before installing the facilities?

At the very minimum, OPASTCO believes that small telephone companies need to be able to have the basic facilities, including fiber optics, and digital switching to meet the demands of new businesses and rural development.

So that small telephone companies can accomplish this, REA needs to change its procedures and be responsive in making loans quickly to accommodate rural development.

Small companies also need realistic depreciation rates to pay for older equipment. More importantly, small companies must have the necessary revenues to pay for the investments that precede and encourage rural development.

We have limited our comments to the telecommunications infrastructure of rural development. However, our members stand ready to participate in all areas of development.

In fact our networks currently are underutilized, and we could accommodate and promote development using the facilities that we have in place.

Mr. Chairman, we have given specific proposals for the telecommunications infrastructure in rural areas. The REA Telephone Program should be returned to its traditional role of actively promoting an up-to-date telecommunications infrastructure.

Federal policies on average toll rates and a universal service fund should be continued, and elements such as depreciation rate and the provision of entertainment television should be addressed so as to provide the necessary components for the network of the future.

In addition to being common carriers, OPASTCO members are most interested in providing the necessary technical expertise, and the necessary services to promote rural development in all areas, including education, health, and other business.

We believe that the costs of our proposals are very little. Other than policy actions, our proposals would require only a modest increase for additional REA staff.

The current appropriations for loan levels should meet the needs of REA telephone borrowers, and we also emphasize that REA loans are paid back by the borrowers.

Mr. Chairman, we look forward to continuing to work with you on the furthering of rural development, and we thank you, again.

[The prepared statement of Ms. Goatcher appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Margaret. I appreciate that. I think that certainly the two-way communications and education is going to be a key as far as many of our rural school districts are concerned. Making sure that they will be able to provide the type of education that young people living in a rural community, raising a family in a rural community are going to demand, so that their children are going to be competitive, be able to go to the universities and make sure that they have all the requirements from the standpoint of courses that are being taught. I think you are right on that.

I think there is another question. Fiber optics is a rather expensive process with installation and availability requirements. I know of course in the panhandle, we have Panhandle Telephone that has been actively involved in this, in the discussions back and forth, in trying to decide where you put fiber optics and where you not put fiber optics.

We find ourselves in the position with a lot of rural communities. At some point just because of this cost factor, we have to make the decision. Well, in a community that in fact is going to grow and develop, and we know has a chance, we install fiber optics.

And those communities that perhaps do not take the initiative, do not provide leadership, do not put out any effort, and continue to decline, we simply do not. Are we going to be faced with that kind of situation, in your opinion?

Ms. GOATCHER. Perhaps there might be, in isolated cases.

Mr. ENGLISH. But you think that we can afford to move forward in installing fiber optics in virtually every rural community served by a telephone service?

Ms. GOATCHER. I think that if we were given the opportunity to provide both the entertainment TV and the telephone services in the same facilities, that reduces the cost, and I believe that we would probably be able to do it in that case.

Mr. ENGLISH. Of course that is going to come down to a very controversial decision as to whether or not that happens or does not happen. We have got a number of cable companies that would probably take issue with some of that. If it is not allowed, how much does that change the equation?

Basically what I am saying is: Are we faced with a situation that if, in fact, telephone companies in rural communities are able to offer a full range of services through the use of fiber optic systems, that makes it affordable? Whereas, if the fiber optics availability is limited as to what it can offer, or what the telephone company can offer—the more traditional service that is offered by the telephone company—does that make it inefficient to the point that you cannot offer it?

Ms. GOATCHER. Again I would say, in some instances it might make it too expensive for that, but I think the prices of fiber optics are coming down, and I think that as technology has developed and other things are offered, it might be well worth the investment of the fiber optics.

We have got to look at the information age. We are in the middle of it. We are seeing new things like signaling system seven which is an advanced information services, which we want to see provided to the whole Nation, rural areas as well as the urban, and there has to be the facilities over which these are provided.

And with the provision of those, this may very well be the answer to whether or not we can afford them, afford the fiber system.

Mr. ENGLISH. Thank you very much, Margaret. I appreciate it.

Ms. GOATCHER. Thank you.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. Thank you. I appreciate your testimony. We are clearly in a situation where we have to proceed with rural development initiatives in a cost-effective manner.

There is not a lot of money that is going to be available for us to take traditional approaches, grant programs, and direct loan programs from the Government. So I believe that in large measure, as we put together a rural development bill, we are going to have to look at existing institutions and agencies, cooperatives, and strengthen their authority and their funding resources. I just want to compliment you on the list of proposals that you have made, I think a good number of them deserve our consideration, and we would like to work together with your association as we develop a section of the rural development bill that provides some of the authority you have requested.

Ms. GOATCHER. It would be our pleasure, sir, to help you.

Mr. ENGLISH. Ms. Long.

Ms. LONG. Thank you, Mr. Chairman. I also appreciate your testimony today, and as a new member of this committee I have considerable to learn, and I am really appreciative of what you have provided and assure you that I will look over it. I also represent a rural area, and communication is a very important part of economic development. So I am very glad to have you here, and appreciate your information.

Ms. GOATCHER. Thank you.

Mr. ENGLISH. Thank you very much, Ms. Long. Margaret, again, I want to thank you for coming before us and giving us your testimony. I think you have given us some real fine testimony—good suggestions, good ideas, and certainly communications has to play a critical role in any type of rural development program we come forward with.

We want to see the REA actively involved, participating and encouraging and helping in making certain that we have a modern, up-to-date communications system. That is critical as far as development of nonagricultural jobs in rural communities. So we appreciate that.

Ms. **Goatcher**. Well, we certainly appreciate your work in our behalf for the REA Program.

Mr. **English**. Thank you. Mr. Rose, we are happy to have had you join us. Thank you very much.

That concludes the witnesses for today. We will recess, subject to the call of the Chair.

[Whereupon, at 12:12 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

National Rural Electric Cooperative Association

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Statement

of

Bob Bergland

Executive Vice President

National Rural Electric Cooperative Association

before the

Subcommittee on Conservation, Credit, and Rural Development

Committee on Agriculture

United States House of Representatives

June 8, 1989

Mr. Chairman and distinguished members of the Committee:

I appreciate this opportunity to appear before you today to discuss the important issues relating to the condition of our rural economy, and the actions which must be taken to restore vitality to the countryside.

I commend this Subcommittee and I appreciate the active, concerned, leadership role you are taking on this important issue. We offer you our full support.

NRECA is the national service organization for the 1,000 rural electric systems which provide power to 25 million people in 2,600 counties in 46 states. Each rural electric cooperative is owned by its consumers who elect a board of directors to set policy and guide the cooperative in its service to the community. By their very nature, rural electric systems have both deep roots and a vested interest in ensuring that their communities grow and prosper.

The rural electric program is itself a prime example of a successful economic development effort. It is based on a strong partnership between an effective federal government agency, the Rural Electrification Administration (REA), and local grass-roots organizations — the rural electric cooperatives. Through this partnership, our nation was able to successfully bring electric service to rural America. This was accomplished despite the fact that established utilities and many knowledgable individuals were convinced that it was a foolish undertaking which could not work. Today, the rural electric cooperatives comprise a powerful network which covers much of the land mass of the United States. These systems are deeply involved in a wide variety of economic development activities beyond the provision of electric service.

The work of this Committee is particularly important in view of the economic events in rural areas during the past several years. Unfortunately, at a time when out national economy has been experiencing a major and sustained expansion, many rural communities have experienced rapid declines. The public record is full of the work of experts who have documented these declines. The data which have been compiled show that rural areas are experiencing: (1) a net outmigration of substantially more than 500,000 people each year; (2) job growth at less than a third the urban rate; (3) high levels of unemployment and underemployment; (4) higher poverty rates, lower incomes, and a growing gap when compared with urban areas in both of these measures; and (5) a heavy loss of college-educated people and significantly lower average levels of education than urban areas.

Rural communities constitute a tremendous national treasure. Rural communities must not be left behind as our economy continues its growth and transition. Given a choice, people prefer to live in open countryside and small communities. Many of the values which have made our country great and continue to sustain our national spirit — family closeness, honesty, commitment and a solid work ethic — are strongest in rural communities. We believe that it is in the best interest of our entire nation for rural areas to be economically strong and to offer attractive employment opportunities, and essential services, including good schools, access to health care, reasonable housing, and other elements which are needed to attract and retain people. If these elements are not present, then the rural outmigration trends of the 1980s are likely to continue. And, Mr. Chairman, this increased concentration of people in urban centers is good for neither the cities nor the rural and small communities.

Mr. Chairman, your letter inviting me to testify before this Subcommittee requested that I address three important issues:

A. specific proposals or recommendations for rural development legislation;

B. how these proposed provisions would be financed; and

C. the role which NRECA would play in implementing these recommendations.

A. SPECIFIC PROPOSALS FOR RURAL DEVELOPMENT LEGISLATION

Let me begin by addressing some of the specific recommendations of the NRECA membership for new rural development legislation.

First, An Economic Development Unit at REA: We believe that there is a strong need for REA to provide leadership and technical assistance in the economic development area. A major step could be taken in this direction by the establishment of a small economic development technical assistance group at REA to provide hands-on advice and assistance to rural electric and telephone systems on specific development projects. This initiative could be accomplished within present REA budget levels. It would be a very effective use of a small amount of federal funds because the leadership, focus, and technical support provided by this unit would result in rural electric and telephone systems increasing both the level and effectiveness of their commitment of human and other resources to economic development efforts within their communities.

REA leadership and technical assistance will do more to increase the involvement and improve the effectiveness of rural electric and telephone cooperatives in the economic development area than any other single force because of: (1) REA's position as the major lender to rural electric and telephone systems; and (2) the historic relationship which has been forged between REA and the rural electric systems — most of which are in existence solely because of the REA program and operate utility systems based on REA accounting, management, financial, and engineering standards. NRECA supports legislation which would require REA to use this unique position to encourage and assist rural electric and telephone systems to increase their involvement and effectiveness in local development efforts and alliances.

Mr. English, and members of this Committee, we appreciate the support which you provided last year in promoting this concept. Because of your leadership 75 congressmen and 41 members of the Senate joined in sending a letter to then Secretary Lyng proposing the establishment of such a technical assistance unit at REA. Despite this support and the clear logic of this proposal it has not yet been implemented. I strongly request that any rural development legislation passed by your Committee should mandate such a unit and make it a permanent part of the Rural Electrification Act.

Again, I thank the members of this Committee for their support for this small, but important initiative.

Second, Rural Distance Learning: Too many rural schools do not have adequate resources to hire teachers to provide instruction in many of the areas of math, science, and languages. This puts rural students at a distinct and serious disadvantage. One way of addressing this problem is by using satellite and other telecommunications technology to bring two-way interactive instructional programming to rural schools. A number of rural electric cooperatives have worked with local school districts to do this, and have donated satellite and other equipment to these schools.

Last year NRECA worked with others to develop a rural "star schools" program tailored to the needs of rural communities. Under this proposal, funding would be provided to partnerships which would include: (a) local rural electric and telephone systems, telecommunications, or other local entities; (b) the National Rural Telecommunications Cooperative; (c) educational institutions; and (d) other organizations which could assist in increasing the level of participation in this program by rural schools, vocational and adult learning centers, health care or other organizations which could benefit from these programs.

We believe that this distance learning proposal is a very effective way to involve the existing network of rural electric, telephone and other systems in local partnerships to use telecommunications technologies to bring courses to rural students that would otherwise simply not be available to them.

If used effectively, telecommunications technologies offer great hope for rural communities. These technologies eliminate a great deal of the disadvantage of distance -- the major, inherent characteristic of rural life. Telecommunications have been called the electronic highways of the future. There is no doubt that the workplace and educational institution of the future will rely more and more on the ability to send and receive information instantaneously. Rural areas cannot afford to be cut off from these electronic highways. We believe that if ever there was a good starting place to ensure that the electronic highway reaches rural America, it is the Rural Distance Learning proposal. We urge that this proposal be expeditiously approved and implemented. It is a program that can truly make a difference in the lives and future prospects of rural children and in their ability to contribute to our nation's economy and the well-being of rural communities.

Third, Rural Business Incubation: The rural economy is disproportionately concentrated in certain industries that are not expected to result in major increases in employment and income growth. These industries -- mainly agriculture, resource extraction and low skill manufacturing -- have all suffered major downturns during the 1980s. If we are to succeed in promoting rural employment and income growth and in softening the impact of future economic downturns, several things must occur: (a) the rural economy must be diversified with particular emphasis on those sectors that are driving the growth of our nation; (b) the rate of rural business formation, which is far below the urban rate, must be increased; and (c) efforts must be made to bring technology, business acumen and financing to rural businesses to improve their ability to compete in an international economy.

We believe that an important way to address these concerns is through the development of a rural business incubation program that would provide focused assistance to new and emerging businesses during their early stages. Such incubators would provide affordable rent, shared services, and access to management advice, accounting, legal and other services to promote the growth of rural businesses during an "incubation" period. This program, in which rural electric cooperatives would contribute expertise and participate in funding, would provide a practical way of linking rural businesses with technology and business acumen. In many ways this would constitute a hands-on technology extension service -- a "missing link" which is presently not available in rural areas.

A well developed rural incubation program would be a major step in ensuring that rural businesses gain access to available technologies and business and marketing techniques, in order to improve their efficiency and ability to contribute more fully to international competitiveness of our nation's economy. A business incubation program can be a major step in ensuring that rural economies are plugged into the mainstream of U.S. economic growth.

Fourth, Access to Capital: There is significant disagreement among experts on the nature and extent of the problems which rural communities are experiencing in obtaining access to capital. However, there is no disagreement that, during the 1980s, the rate of business formation in rural communities has been far far less than in urban areas. Recent studies, as well as certain anecdotal information, including reports from our members, indicate that the inability of rural businesses to gain access to needed credit is a prime factor in this low rate of new business formation.

NRECA believes that cost effective methods should be developed to encourage private banks and other financial institutions to increase the amount of funds they are willing to make available to rural businesses, especially small businesses.

In any such program the role of the federal government should be limited to providing incentives, including funding through revolving loan funds or other mechanisms, that can increase the flow of private capital to rural businesses. We believe that partnerships developed to promote this goal must include the requirement that local entities match or exceed any amounts made available through a federal program. The local community should accept a measure of risk and be required to make a financial investment.

One specific proposal that the NRECA membership has made is that REA's present "Section 12" program (in which borrowers are permitted to defer loan payments as an incentive to make loans to consumers for energy conservation) be modified to include loans for community and economic development projects. Under this proposal the amount of such deferred payments could not exceed 50% of the total project. In order to avoid a budget outlay problem borrowers would be required to make "cushion of credit" deposits (which generate interest to the borrower at a five percent rate) at the time of loan payment deferral. The end result would be a small program that would provide an encouragement to borrowers to make investments in community and economic development projects by permitting the deferment of a loan payment for a period of 5-10 years without the accumulation of interest. We believe that this would be a small but sound program in which, at a small cost resulting from the loss of a portion of interest income, the federal government could provide a practical method of promoting private sector investment in economic development. This program would have the additional benefit that, because it is a modification of an existing program, rural electric systems are already familiar with it, and it could be implemented quickly.

Fifth, Water and Waste Disposal Financing: Rural electric systems in a number of states have been very actively involved in the water and waste disposal area for many years. In several cases these rural electric systems actually operate water and waste disposal systems; in others, rural electric systems have been instrumental in helping organize and develop these systems.

Generally, water and waste disposal comes to the attention of a rural electric system when it becomes a serious problem. This occurs in several cases, including cases in which: (a) development, including new industry location, in an area is blocked because of the lack of water and waste disposal, thereby resulting in the loss of job growth in a community facing serious economic problems; (b) a local community or water system experiences problems involving compliance with certain environmental requirements; and (c) an area which has been served by a rural electric system for 50 or more years is annexed by a municipal system which then provides water and waste service to the area, and at the same times takes over the electric service in the area, thus increasing electric rates to the remaining rural consumers. In all of these cases, both the rural electric cooperative and its rural consumers suffer because of the lack of water and waste facilities.

We propose that REA be authorized to provide a small amount of funding to rural electric systems to provide water and waste service in the types of cases outlined above, and in which financing from other agencies is not available. We believe that rural electric cooperatives, which have a great deal of experience in operating utility systems, would provide an effective service to their communities in the water and waste disposal area, which is quickly becoming more important, not only from an economic development, but also from an environmental and health perspective. Such a program would provide a practical way of encouraging rural electric systems to work closely with rural water systems in achieving economies of scale in standard utility operations, such as billing, collections, etc.

B. HOW THESE PROPOSALS WILL BE FINANCED

Mr. Chairman, let me address the matter of financing these and other rural development proposals.

First of all, I would be negligent if I did not begin this discussion by thanking you, Mr. English, and the other members of this Committee for your work in ensuring that the Budget Resolution for fiscal year 1990 includes funding for a new rural development initiative. This marks the first time in many, many years that new money for rural development has been approved in a budget resolution. As you know, the pattern has been just the opposite: during the 1980s federal funds for rural development programs have been cut by more than 75%. Rural areas have felt the impact.

Despite the fact that the fiscal year 1990 Budget Resolution includes funding for a new rural development effort, these amounts are limited, and any additional amounts will be likely to remain limited in the future, given our continuing deficit problems. Every effort must be made to use these limited Federal resources carefully, and in ways that leverage their effectiveness. In order to achieve this I believe that the following will be required:

1. Any new programs should include the requirement that private capital be used along with federal funds, or should be otherwise based upon a federal role, (such as the provision of technical assistance), designed to encourage and leverage private involvement. This is more than just a money saving measure. Experience has shown that local development problems cannot be solved by large federal spending programs which lack local support. Successful efforts must have a strong element of local commitment and initiative. The federal role should be limited to doing what only the federal government can do, or what it does best — making use of its regulatory authorities, developing standards, providing technical assistance, and, where needed, financing. This federal role can be used most effectively when employed as part of a partnership with local grass-roots organizations which embody the commitment of the local community to the project for which assistance is provided, and which represent, and are accountable to the local community. In the absence of local leadership, commitment, and input, federal resources are more likely to be wasted. The local community, through its rural electric cooperative, or other local entity must be required to "buy into" the development process.

2. Greater use must be made of existing networks of rural organizations, such as rural electric cooperatives, and other locally owned and controlled organizations. There simply is not enough money to expend in creating new networks.

C. THE ROLE WHICH NRECA WOULD PLAY IN IMPLEMENTING THESE PROPOSALS

The proposals presented here are all based upon the resolutions voted upon and enacted by NRECA's membership — 1,000 rural electric systems. NRECA stands ready to endorse and actively advocate new legislative initiatives to implement these and other worthy proposals.

If endorsed by this Committee and enacted, the NRECA membership, which developed, voted upon and approved these proposals, will stand ready to carry them out in the rural communities they serve. To a large extent these proposals build upon and support exiting rural development activities of rural electric cooperatives. They also build upon and fill some of the gaps in existing legislation which permits rural electric cooperatives to use their own funds up to 15% of the amount they have invested in electric facilities to make investments in rural development projects. This existing legislation, while important in opening new doors, does not provide any direction, guidance, risk sharing, financing, or other assistance to rural electric cooperatives in making use of this authority. The proposals that I have outlined today would remedy this, by providing some measure of technical assistance and financing to leverage what can be accomplished by rural electric cooperatives using their own private funds.

Mr. Chairman, and members of the Committee, I appreciate this opportunity to appear before you today. Again, let me emphasize my appreciation and support for the leadership you are showing in addressing this important matter. NRECA will give the highest priority to supporting legislative proposals of this Committee developed along the lines discussed this morning. We stand ready to help you in any way in your task of assisting rural communities to grow and regain their vitality.

Statement by William R. Allen, Jr.
on behalf of the
National Council of Farmer Cooperatives
before the
House Agriculture Subcommittee
on
Conservation, Credit & Rural Development
Washington, DC
June 8, 1989

THANK YOU VERY MUCH, MR. CHAIRMAN AND OTHER MEMBERS OF THIS SUBCOMMITTEE. WE APPRECIATE THE OPPORTUNITY TO OFFER OUR VIEWS AND COMMENTS ON THIS IMPORTANT ISSUE.

MY NAME IS WILLIAM R. ALLEN, JR., AND I AM PRESIDENT AND CHIEF EXECUTIVE OFFICER OF UNION EQUITY COOPERATIVE EXCHANGE, A REGIONAL GRAIN MARKETING COOPERATIVE HEADQUARTERED IN ENID, OKLAHOMA. UNION EQUITY MARKETS PRIMARILY HARD RED WINTER WHEAT AND GRAIN SORGHUM IN BOTH THE DOMESTIC AND EXPORT MARKETS ON BEHALF OF THE 483 LOCAL COOPERATIVES WHICH OWN OUR ORGANIZATION. THESE MEMBERS ARE LOCATED IN A 10-STATE AREA STRETCHING FROM TEXAS TO SOUTH DAKOTA AND FROM MISSOURI TO COLORADO.

I ALSO SERVE ON THE BOARD OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES, A TRADE ASSOCIATION REPRESENTING 90 REGIONAL MARKETING AND SUPPLY COOPERATIVES, 32 STATE COOPERATIVE COUNCILS AND THE COOPERATIVE FARM CREDIT SYSTEM. ORGANIZATIONS IN THE COUNCIL IN TURN HAVE MORE THAN 5,000 LOCAL COOPERATIVE MEMBERS WITH A COMBINED MEMBERSHIP OF SOME TWO MILLION INDIVIDUAL FARMERS AND RANCHERS.

THESE ORGANIZATIONS, AND THE PEOPLE WHO ARE PART OF THEM, HAVE AN OBVIOUS VESTED INTEREST IN RURAL AMERICA; A BUSINESS INTEREST, TO BE SURE, BUT A PERSONAL ONE AS WELL BECAUSE RURAL AMERICA IS HOME FOR THEM AND THEIR FAMILIES.

RECENT USDA FIGURES SHOW FARMER COOPERATIVES HAVE A TOTAL INVESTMENT OF MORE THAN $27 BILLION, AS MEASURED BY TOTAL ASSETS, AND A COMBINED ANNUAL BUSINESS VOLUME OF ALMOST $75 BILLION. THEY ALSO REPRESENT A SIGNIFICANT SOURCE OF EMPLOYMENT AND CONTRIBUTE TO THE TAX BASE OF RURAL COMMUNITIES ALL ACROSS THE NATION. WE WOULD NOTE, TOO, THAT THE NATIONAL COUNCIL'S FARM CREDIT BANK MEMBERS HAVE A LARGE INTEREST AND INVESTMENT IN RURAL AMERICA, WITH A LOAN PORTFOLIO OF SOME $51 BILLION.

WE TRUST THESE NUMBERS AND OBSERVATIONS EMPHASIZE NOT ONLY THE BUSINESS AND PERSONAL INVESTMENT FARMER COOPERATIVES AND THE COOPERATIVE FARM CREDIT SYSTEM ORGANIZATIONS HAVE IN RURAL AMERICA BUT ALSO THAT THEY CAN AND DO HAVE A ROLE TO PLAY IN RURAL DEVELOPMENT.

HAVING SAID THAT, WE CAN MOVE TO THE KNOTTY QUESTION OF HOW WE GET OUR COLLECTIVE ARMS AROUND THIS ISSUE KNOWN AS RURAL DEVELOPMENT AND FIGURING OUT WHAT TO DO ABOUT IT. AND THEREIN, IN OUR JUDGMENT, IS THE BIGGEST SINGLE HURDLE THAT MUST BE OVERCOME.

THAT'S BECAUSE OUR UNDERSTANDING OF WHAT RURAL DEVELOPMENT IS ALL ABOUT SUGGESTS THAT IT INVOLVES A GREAT MANY THINGS. AND THAT WHILE THERE MAY BE SOME COMMON DENOMINATORS, THERE ARE JUST AS MANY, IF NOT MORE DIFFERENCES. FURTHER, THAT THE DIFFERENCES EXIST NOT ONLY IN DIFFERENT PARTS OF THE NATION, BUT EVEN AMONG RURAL AREAS IN THE SAME STATE.

OUR OWN STATE OF OKLAHOMA IS A GOOD EXAMPLE. SOME POLICIES AND PROGRAMS THAT MIGHT BE VERY EFFECTIVE IN WESTERN OKLAHOMA WHERE AGRICULTURE AND ENERGY ARE DOMINANT MIGHT HAVE LITTLE BENEFICIAL IMPACT IN THE EASTERN PART OF THE STATE WHERE GEOGRAPHY AND OTHER CONDITIONS COULD PRESENT A DIFFERENT SET OF RURAL DEVELOPMENT PRIORITIES.

WE'LL COMMENT ON SOME POSSIBLE IMPLICATIONS OF THOSE VARYING PRIORITIES IN A MOMENT.

AS NOTED EARLIER, THOUGH, WE THINK THERE ARE SOME COMMON DENOMINATORS IN THE RURAL DEVELOPMENT EQUATION. THESE COMMON DENOMINATORS COULD BE DESCRIBED, TITLED AND ORGANIZED IN VARIOUS WAYS, BUT WE'LL LIST THREE, EACH OF WHICH HAS SEVERAL SUB-CATEGORIES.

THE PEOPLE FACTOR

FIRST, IN OUR JUDGMENT, IS THE PEOPLE FACTOR. THE KEY ELEMENT HERE OBVIOUSLY IS EDUCATION--INCLUDING BASIC EDUCATION FOR RURAL YOUNG PEOPLE THAT ASSURES THE SAME KIND OF SCOPE AND QUALITY FOUND IN METROPOLITAN AREAS. THIS IS NOT A CRITICISM OF RURAL SCHOOLS, BUT SIMPLY AN OBSERVATION ABOUT THE INHERENT DIFFICULTIES INVOLVED IN PROVIDING A BROAD RANGE OF EDUCATIONAL OPTIONS WHEN THE NUMBER OF STUDENTS IS SMALL AND THE SUPPORTING TAX BASE IS LIMITED.

JOB TRAINING OR RETRAINING TO GIVE RURAL RESIDENTS THE SKILLS NEEDED IN A PERIOD OF RAPID ECONOMIC CHANGE ALSO IS PART OF THE EDUCATION PICTURE.

ANOTHER NEEDED INGREDIENT HERE IS BASED ON THE VIEW THAT PROGRESS IN RURAL DEVELOPMENT CAN'T AND WON'T HAPPEN UNLESS THE PEOPLE INVOLVED WANT IT TO HAPPEN AND ARE IN A POSITION TO TAKE THE LEAD TO MAKE IT HAPPEN. I'M CONVINCED THERE ARE PEOPLE WHO COULD AND WOULD TAKE THAT LEAD BUT WHO MAY NEED SOME TOOLS, TECHNIQUES AND INFORMATION TO HELP GET THEM OFF TO THE BEST POSSIBLE START. PROGRAMS ALONG THESE LINES ALREADY ARE UNDERWAY IN SOME STATES AND ARE KNOWN BY VARIOUS NAMES, MOST OF THEM INCORPORATING THE WORDS "LEADERS" OR "LEADERSHIP." BY WHATEVER NAME THEY ARE KNOWN, EFFORTS SUCH AS THESE COULD BE EXPANDED WHERE THE NEED AND DESIRE FOR THEM ARE INDICATED.

RURAL INFRASTRUCTURE

NEXT ON OUR LIST ARE ELEMENTS IMPORTANT TO THE RURAL INFRASTRUCTURE.

AMONG THESE ELEMENTS ARE TRANSPORTATION, INCLUDING BOTH RAILROADS AND ROADS AND BRIDGES. WE FRANKLY ARE ALARMED BY WHAT APPEARS TO BE AN ACCELERATING TREND IN RAIL ABANDONMENTS SINCE DEREGULATION WENT INTO EFFECT. ABANDONMENTS MAKE ECONOMIC DEVELOPMENT IN MANY RURAL AREAS THAT MUCH MORE DIFFICULT.

PROBLEMS INHERENT IN PROVIDING OTHER BASIC SERVICES SUCH AS WATER, FIRE PROTECTION, SEWERS AND SEWAGE TREATMENT FACILITIES ALSO MUST BE INCLUDED HERE.

ANOTHER ELEMENT WE VIEW AS PART OF THE RURAL INFRASTRUCTURE IS HEALTH CARE DELIVERY. MORE AND MORE, WE'RE SEEING OR HEARING ABOUT PROBLEMS RURAL COMMUNITIES ARE HAVING IN KEEPING LOCAL HOSPITALS IN OPERATION AND IN ATTRACTING DOCTORS AND OTHER MEDICAL PERSONNEL. EMERGENCY

MEDICAL SERVICE ALSO IS PROBLEM IN SOME AREAS.

DISTANCE AND THE COMPARATIVELY LOW NUMBER OF USERS ALSO COMBINE TO LIMIT AVAILABILITY OF UP-TO-DATE TELECOMMUNICATIONS SYSTEMS IN MANY AREAS. ACCESS TO SUCH SYSTEMS IS ESSENTIAL TO BUSINESS AND INDUSTRY IN TODAY'S INFORMATION AGE.

ECONOMIC DEVELOPMENT

DEVELOPING THE HUMAN RESOURCE BASE AND IMPROVING THE RURAL INFRASTRUCTURE ARE ESSENTIAL INGREDIENTS IN OUR THIRD COMMON DENOMINATOR--ECONOMIC DEVELOPMENT. WE LIST ECONOMIC DEVELOPMENT SEPARATELY SIMPLY BECAUSE IT HAS ITS OWN SET OF SUB-CATEGORIES.

AVAILABILITY OF CAPITAL IS PERHAPS THE MOST IMPORTANT BECAUSE LITTLE HAPPENS WITHOUT MONEY TO GET THE JOB DONE. WE KNOW OF THE INTEREST AND DISCUSSION CENTERING ON THE POSSIBLE ROLE THE FARM CREDIT SYSTEM COULD PLAY IN MEETING THIS NEED. THAT'S AN OPTION THAT MERITS FURTHER CONSIDERATION, IN OUR JUDGMENT, BECAUSE THE SYSTEM'S CREDIT DELIVERY APPARATUS ALREADY IS IN PLACE SERVING THE PRODUCERS AND COOPERATIVES THAT ARE SUCH AN IMPORTANT PART OF RURAL AMERICA.

WE HAVE STATED BEFORE AND WE STILL BELIEVE THAT A HEALTHY AGRICULTURAL INDUSTRY CONTRIBUTES TO A HEALTHY U.S. ECONOMY, INCLUDING THE ECONOMY IN MUCH OF RURAL AMERICA. THUS, DECISIONS ON FARM POLICY CONTINUE TO HAVE A DIRECT IMPACT ON MANY RURAL COMMUNITIES. WHILE THERE'S AN OBVIOUS NEED FOR MANY RURAL AREAS TO DIVERSIFY THEIR ECONOMIC BASES IN ORDER TO GENERATE MORE JOB OPPORTUNITIES, IT'S IMPORTANT WE NOT OVERLOOK AGRICULTURE IN THE PROCESS.

WHILE AGRICULTURE HASN'T RECOVERED COMPLETELY FROM THE PROBLEMS OF THE EARLY 1980s, PROGRESS HAS BEEN MADE IN RECENT YEARS. FARM INCOME IS UP, EXPORTS ARE RECOVERING AND NUMEROUS OTHER INDICATORS OF THE FARM ECONOMY ARE SHOWING IMPROVEMENT.

PROBLEMS REMAIN, TO BE SURE, AND MOTHER NATURE—HAS CONTRIBUTED A FEW MORE ALONG THE WAY. BUT WE BELIEVE IT MAKES SENSE TO CONTINUE THE BASIC DIRECTION AND THRUST OF CURRENT FARM POLICY AS THE CONGRESS CONSIDERS AGRICULTURAL LEGISLATION FOR 1990 AND BEYOND.

FLEXIBILITY WAS A KEY CONSIDERATION IN THE 1985 FARM BILL. GIVEN THE MANY DIFFERING SITUATIONS AND NEEDS WE NOTED EARLIER IN THE RURAL DEVELOPMENT EQUATION, WE'RE CONVINCED FLEXIBILITY MUST ALSO BE A PRIMARY GOAL OF ANY LEGISLATION DEALING WITH RURAL DEVELOPMENT.

AT THE SAME TIME, THERE'S A NEED FOR GREATER COORDINATION IN GOVERNMENT'S APPROACH TO RURAL DEVELOPMENT. AS WE SEE IT, THERE ALREADY ARE NUMEROUS FEDERAL PROGRAMS THAT DIRECTLY OR INDIRECTLY AFFECT RURAL DEVELOPMENT. FARM PROGRAMS, POLICIES ON THE MANAGEMENT OF FEDERAL LANDS, ENVIRONMENTAL POLICIES, EDUCATION AND HEALTH-RELATED POLICIES ARE JUST SOME OF THESE. THESE ARE IN ADDITION TO STATE PROGRAMS OF VARIOUS TYPES. THE FEELING THAT NOW SEEMS TO PREVAIL AMONG MANY RURAL RESIDENTS IS THAT, IN AN ENVIRONMENT WHERE THERE ARE MANY PROGRAMS—ALREADY UNDERWAY, THERE IS TOO MUCH ATTENTION ON TURF PROTECTION RATHER THAN ON GETTING A JOB DONE.

I'M NOT HERE TODAY TO JUDGE WHETHER OR NOT SUCH CONCERNS ARE JUSTIFIABLE. I DO THINK, THOUGH, THAT THESE CONCERNS EMPHASIZE THE NEED FOR EFFECTIVE, RESULTS-ORIENTED COORDINATION.

HOW CAN ALL THE EXISTING PROGRAMS, NOT TO MENTION ANY NEW INITIATIVES THAT MAY BE NEEDED, BEST BE COORDINATED TO REACH THE GOAL OF PROGRESS IN RURAL DEVELOPMENT? HOW CAN WE ACHIEVE ADEQUATE COORDINATION WHILE RETAINING THE FLEXIBILITY NEEDED TO TARGET SPECIFIC NEEDS OF SPECIFIC COMMUNITIES? AND HOW CAN WE INCORPORATE THE NEEDED FLEXIBILITY WHILE ASSURING ACCOUNTABILITY?

WE POSE THESE QUESTIONS NOT IN A NEGATIVE WAY BUT MERELY TO SUGGEST WHAT WE VIEW AS ESSENTIAL ELEMENTS OF ANY GOVERNMENTAL POLICY ON RURAL DEVELOPMENT. WE POSE THEM, TOO, TO SUGGEST THAT THE TASK YOU AND YOUR COLLEAGUES HAVE SET OUT TO ADDRESS IS A COMPLEX ONE...ONE REQUIRING A LARGE MEASURE OF CREATIVE THOUGHT AND INNOVATION.

WE COMMEND YOU FOR YOUR WILLINGNESS TO UNDERTAKE THIS TASK AND PLEDGE OUR SUPPORT TO YOUR EFFORTS TO FIND THE MOST EFFECTIVE WAYS TO ACCOMPLISH IT.

Testimony of

Rob Johnson

Executive Director,
National Rural Water Association

Mr. Chairman, thank you for the honor and opportunity to testify before your rural development Committee today. I represent the National Rural Water Association (NRWA), which is comprised of thirty six states Rural Water Associations, including the Oklahoma Rural Water Association, with a combined membership of over 8500 rural and small municipal water systems. This committee has a special opportunity to sort out the problems and define the needs of our rural communities and we are privileged to be a part of your effort to find new solutions.

Our primary message today is to urge your support of the FmHA water and sewer grant and loan program. Over the past twenty five years the federal government, with the support of this Committee, has transformed the face of rural America through its Farmers Home Administration (FmHA) rural water and sewer grant and loan program. Approximately $9.8 billion in FmHA water and sewer loans have been made during this period and over $3.1 billion in grants. These funds have been available to groups of rural residents and to small municipalities which have no other source of long term financing for small water systems other than this program. These small water systems have a delinquency rate on loan repayments of less than 1% and many have generated their own funds to expand and provide safe water to a growing number of rural residents.

To realize how far we have come one only has to speak with the board members of the NRWA from each state. Over one-half of the members come from families that hauled water in their youth. A majority recount vividly the impact that clean drinking water had on their lives as well as on the health of their families. The vast majority of Americans cannot conceive of living without clean, safe tap water and, as a result, without a reliable domestic water supply rural residents would have moved out of rural areas long ago. It is frightening to think of the circumstances we would be in in rural America without the 29,298 small water and sewer system loans provided by the FmHA program.

We believe that those rural water systems form the backbone of rural community development and we are here to urge you to strengthen and expand upon past FmHA efforts. Our recommendations to you are straight forward and simple. We urge the following:

1) Reauthorize and expand the FmHA rural water and sewer grant and loan programs to a level of $300 million for grants and $600 million for loans.

2) Authorize a rural waste water circuit rider program which would provide for at least one circuit rider in each state.

3) Authorize a rural groundwater/solid waste disposal circuit rider program which would provide for at least one circuit rider in each state.

These requests are made in light of the current need for adequate and safe drinking water, sewage treatment facilities and sanitary landfill facilities in rural communities. These kinds of facilities are needed because without this type of sanitary system infrastructure it will be impossible for small communities and rural areas to compete with the urban areas of the country. In addition, there is a well recognized, growing danger to the quality of the rural environment and our rural citizens deserve the same environmental protection efforts that are found in metropolitan areas.

The rural water grant and loan program is essential to rural environmental quality. There is no other significant federal or private loan assistance available to build and improve rural water supplies. In addition, with EPA terminating its waste water construction grants program and substituting it with a more limited revolving loan program, the FmHA program will also be the only significant source of grant funds for construction of small waste treatment systems. This is occuring at a time when many rural areas are out of compliance with the Federal Clean Water standards and with Federal Safe Drinking Water Act (SDWA) requirements. For example, the number of contaminents that must be tested under the SDWA will increase from 25 to 108 over the next three years. Approximately 65% of the water systems affected by these new requirements serve under five hundred families and are in rural areas. It appears that 80% of the systems will have to add treatment to their water supplies. Without FmHA grants and loans rural communities will not have the resources needed to meet these increased federal requirements.

While the grants and loans provide the invaluable resources for small systems there has been a growing need for on-site technical assistance to help part time water operators improve their systems and comply with federal law. In response to this need state rural water associations created a rural water technical assistance circuit rider program which now operates in every state. This program provides a full-time person available to help small systems solve problems with their water treatment, billing and management, operations, water loss, EPA required testing and other problems routinely faced in their daily operations. Circuit riders are available to sit down and work with any small community system in a state on request. In some cases, the Circuit Rider, by simply dropping by to visit a part-time operator, is able to help identify unforeseen problems and make suggestions on how to improve operations and avoid regulatory compliance problems. The impact of the program has been broad and deep. Attached is a chart of the number and type of visits made by the Circuit Riders in the various states.

The growing number of requests for small water system circuit rider assistance are evidence of the growing concern with the protection of the natural environment in rural areas. Each year, the testimony before the Agriculture Appropriations Committee reflects more and more warnings of the wide use of pesticides, the location of solid and toxic waste dumps and the failure to protect vulnerable open space areas. In turn, these concerns invariably come down to the impact that these pollutants have on the quality of the local water supply. As a result, many of our small water and waste water systems find themselves in the position of becoming actively involved in broader environmental protection issues in order to protect irreplaceable ground and surface water supplies. One example of this is the interagency agreement, supported by rural water systems, between EPA and FmHA which establishes a priority in the FmHA grant and loan funds to assist EPA identified out-of-compliance water systems. In addition, there is a variety of federal legislation and pending regulations on groundwater restriction and, of course, the growing number of requirements under the Safe Drinking Water Act. The increasing complexity of these issues will be the major challenge to small communities and rural water systems in the next decade.

Recommendations:

The most important program for improving the quality of rural water and waste water is the FmHA rural water and sewer grant and loan program. There will be very little improvement in rural water systems or in the rural environment without adequate funding to strengthen rural water and sewer systems. The vast majority of these systems do not have the legal authority or capacity to obtain long-term financing and without the FmHA loan program could not build new projects. Other small communities in low-income areas will simply not have safe water and sanitary sewage treatment without the grant program.

We urge the Committee to increase the authorization of the grant program from the present $154 million to $300 million and the loan program from $340 million to $600 million. There are over $800 million in loan requests that are in the field and unprocessed and over $300 million in grant requests. These numbers would be even greater if FmHA District offices did not have to discourage applications because of the lack of existing funding. We are asking for this increase because we believe that the growing demand for improved environmental quality in rural areas from the Environmental Protection Agency and other environmental groups will make this program an increasingly high national priority which will be reflected in the demand for larger appropriations. However, we will not be able to be in a position to receive new appropriations if this Committee does not increase the present authorization. The FmHA grant and loan program is the core program available for small communities to utilize to solve a variety of environmental problems, and an increase in its authorization levels is critical.

Secondly, we urge this Committee to establish circuit rider programs for waste water systems and for groundwater/waste disposal protection. We have initiated a demonstration waste water circuit rider program in sixteen states - including Oklahoma. The demand for help from small waste water systems has far exceeded our predictions. All small sewage systems in Oklahoma and other states are required to be in compliance with the Federal Clean Water Act this year and there has been little or no on-site technical assistance to help with this compliance. The vast majority of sewage systems that have not met Clean Water Act standards are in rural areas which cannot afford the increased monetary fines and growing regulatory demands that are forthcoming from EPA.

We also request that the Committee consider establishing a solid waste disposal/groundwater protection circuit rider program. Small communities and rural water systems are continuously faced with issues of solid waste dump siting as well as other community decisions on placement of facilities in aquifer recharge areas. In addition, there are frequent questions asked on the issue of possible pesticide pollution. Having a circuit rider within each state to help small communities resolve their problems and protect drinking water sources would be a major step in protecting the rural environment for future generations.

You have requested that we make recommendations on source of funding for these programs. For the waste water and groundwater/solid waste circuit rider programs the total cost of covering the entire county will be approximately $4 million for each program or a total of $8 million. We believe that the on-site technical assistance provided by those programs will greatly improve the compliance with federal environmental regulations which should greatly reduce the cost of regulation enforcement at EPA. With the new emphasis within the Agricultural Appropriations Subcommittee on environmental concerns we believe that there could be sufficient support for these programs within existing budgets. In addition, it is important that this type of grassroots environmental technical assistance come from this rural development effort rather than from EPA where the sensitivity to unique rural enviornmental problems is not as well established.

The funding increase in FmHA grants and loans would be more significant and would require budget shifting under a no growth budget. There is a growing concern for environmental protection in this country and there is little or no chance of improving the environment (water, waste water, solid waste) in rural areas without a strong FmHA grant and loan program. Small low-income communities have always wanted these sanitary facilities, but there has not been enough money to construct them. With some federal assistance new rural water and sewer systems have been and will be built. If new monies are freed up in the federal budget this program should receive a top priority.

There is one note of caution that we would like to inject into your consideration of this legislation. We realize that there is a growing interest by both the Rural Electric Cooperatives and the Federal Farm Credit Bank in helping provide funding for rural water systems. There are provisions in the Senate version of this legislation authorizing the increased participation of these organizations in rural water system assistance. Our Association and the state rural water associations welcome all the help we can get to improve rural water systems. However, we strongly believe that the FmHA rural water grant and loan program is the most viable and effective method for stimulating the greatest rural water system development for the funds invested. Rural Electric has always been a partner with rural water systems, but establishing a new federally assisted rural water program with different rules and financing arrangements could set an unneeded precedent in these tight budget times. Over the past few years, we have worked with Congress to fund the FmHA program to have loans and grants available, but also to require small communities and small water systems to use as many of their own resources as possible and to rely on federal help only when absolutely necessary. Any changes in this balance through the creation of new programs should be carefully analyzed. Until this is clarified we would recommend that there be a careful review of any use of federal appropriations to fund programs to assist rural water and sewer systems other than the FmHA rural water grant and loan program.

Thank you again for the opportunity to appear before this Committee. We are an eager partner in your efforts to pass stronger and better rural development legislation to help revitalize rural America.

(Attachment follows:)

CIRCUIT RIDER TECHNICAL ASSISTANCE REPORT
OCTOBER 1, 1987 THROUGH SEPTEMBER 30, 1988

STATE	TOTAL CONTACTS	OPERATIONS	MANAGEMENT	OTHERS
ALABAMA	534	159	375	00
ARIZONA	218	125	84	09
ARKANSAS #1	686	439	211	36
ARKANSAS #2	402	324	71	07
CALIFORNIA	339	231	54	54
COLORADO	498	479	19	00
DELAWARE/MARYLAND	163	31	74	58
FLORIDA	524	269	174	81
GEORGIA	434	199	231	04
IDAHO	321	270	47	04
ILLINOIS	505	419	61	25
INDIANA	451	279	160	12
IOWA	547	381	154	12
KANSAS	447	228	195	24
KENTUCKY	561	437	83	41
LOUISIANA #1	468	304	65	99
LOUISIANA #2	296	167	43	86
MAINE	390	254	100	36
MICHIGAN	463	243	220	00
MINNESOTA	453	269	170	14
MISSISSIPPI #1	657	212	351	94
MISSISSIPPI #2	314	173	54	87
MISSOURI	430	50	380	00
MONTANA	435	316	107	12
NEBRASKA	625	531	46	48
NEVADA	190	174	14	02
NEW JERSEY/CT/RI	169	101	58	10
NEW MEXICO	531	313	142	76
NEW YORK	422	418	04	00
NORTH CAROLINA	423	325	92	06
NORTH DAKOTA	477	300	156	21
NORTHEAST	436	371	36	29
OHIO	453	273	134	46
OKLAHOMA #1	461	219	212	30
OKLAHOMA #2	383	309	18	56
OREGON	466	303	54	109
PENNYSLVANIA	504	446	30	28
SOUTH CAROLINA	509	146	350	13
SOUTH DAKOTA	520	417	62	41
TENNESSEE	523	139	290	94
TEXAS #1	457	239	207	11
TEXAS #2	427	209	216	02
UTAH	497	375	50	72
VIRGINIA	485	385	82	18
WASHINGTON	241	208	16	17
WEST VIRGINIA	451	135	179	137
WISCONSIN	335	287	23	25
WYOMING	510	269	101	140
Total:	21031	13150	6055	1826

Statement of
Margaret Goatcher
President, Cimarron Telephone Company
First Vice President, Organization for the Protection and
Advancement of Small Telephone Companies
before the
House Committee on Agriculture
Subcommittee on Conservation, Credit and Rural Development

June 8, 1989

Good morning Mr. Chairman and members of the subcommittee. I appreciate this opportunity to appear before you to discuss rural development.

I am Margaret Goatcher, president of Cimarron Telephone Company in Mannford, Oklahoma, and also First Vice President of OPASTCO, the Organization for the Protection and Advancement of Small Telephone Companies.

OPASTCO is a national association representing more than 400 telephone companies and cooperatives that serve less than 50,000 customers. Collectively our members provide telephone service to approximately 1.5 million subscribers in 39 states in rural America. Of our members, 70 percent are REA or RTB borrowers.

Mr. Chairman, OPASTCO supports rural development for the communities our members serve and for communities throughout the nation. In fact, OPASTCO recognized this in a very specific way in January of this year. OPASTCO established a foundation - the Fund for Rural Education and Development, or FRED. The principle activity of FRED is sponsoring programs related to the technological, social, and economic conditions of rural areas, particularly as these conditions impact telecommunications. The support to achieve FRED's educational and research oriented goals will come from volunteers and private sources.

It is important that all parts of our country, including rural areas, have the infrastructure necessary for the United States to compete in world markets. Rural development in the past occurred because of advantages in natural resources; geography, such as agricultural land; and transportation via rivers and railroads. Today these segments of our economy are not growing or even may be declining.

To increase the potential for rural development, we must look to other segments of our economy such as the provision of information goods and services. A state of the art telecommunications infrastructure is essential if rural businesses are to effectively compete not only in national markets, but in world markets. Telecommunications, particularly for tomorrow's business world, eliminates distance and geography as a handicap for rural areas.

OPASTCO believes telecommunications is the key to future development.

OPASTCO members are very interested in rural development and recognize the need for appropriate actions by the federal government and by state governments. Indeed, the federal government already has in place a most effective rural development program for the telecommunications infrastructure - the Rural Electrification Administration.

The REA telephone program was established in 1949 when REA was authorized by Congress to loan funds for telephone services, and the Rural Telephone Bank was established in 1971. Since its inception, REA has accomplished the following in communications:

- The number of individuals with telephone service in borrower service areas has increased from 36 percent in 1949 to 96 percent in 1988.
- One party service in borrower service areas has increased from 20 percent in 1961 to 93 percent.
- The REA Standards Division has promoted and established standards for innovations such as buried cable instead of open wire, and subscriber carrier equipment to increase the number of phone conversations that can be carried on a single pair of telephone wires. In addition, the REA Standards Division has created and enforced a set of standards and specifications that has insured that

rural areas, thus far, have received quality telephone service equivalent to urban areas.

But REA in recent years has backed away from its traditional role of promoting the up-to-date telecommunications infrastructure so necessary for rural development, and OPASTCO believes that REA needs to reverse its current philosophy. Specifically, REA should be directed to accomplish the following to assure state of the art telecommunications for rural areas:

- Reestablish the policy of promoting the latest technology for rural areas by directing the REA telephone program technical staff to promote innovations and applications to speed the delivery of information services to rural areas.
- Reverse restrictive REA policies on eligibility for loans contained in the Code of Federal Regulations which have the potential to force small companies out of the program.
- Promote full use of loan authority; the Administrator should lend up to the full amount authorized by Congress.
- Provide funding for all Act purposes including headquarters buildings, computers, vehicles, work equipment, and particularly capabilities such as signaling system 7 and equal access.

My company, Cimarron Telephone Company, currently has 6,400 access lines serving 10 exchanges in northeastern Oklahoma. I can honestly say that without REA financing and technical assistance, our company could not have achieved the level of facilities and service quality we have today. But I emphasize that REA's job is not finished. To bring the information age to rural America -- including fiber optics, advanced signaling networks, and the services these technologies will provide-- telephone companies serving rural areas must continue to receive and make efficient use of REA funds and technical assistance.

In addition to REA funding and technical assistance, other federal policies have promoted state of the art telecommunications in rural areas. While OPASTCO realizes that maintaining and continuing these policies may not be within the jurisdiction of this subcommittee, we encourage you to consider their importance in the promotion of rural development.

OPASTCO believes that two federal policies were essential in obtaining universal service and the present technology-rich network and are important for promoting the future information age in rural areas:

- First, pricing of communications services to and from rural areas should remain the same as pricing for the same services in urban areas. Average pricing of interstate toll rates is a past and current FCC policy.

- Second, a settlements system that permits rural companies to recover their higher cost of doing business through pooling remains essential. The FCC has implemented a universal service fund for higher cost small companies to accomplish this need.

The continuation of nationwide rate averaging and the a universal service fund, along with the future viability of REA, are key elements in not only the maintenance of universal telephone service, but also in the promotion of universal information service, which is imperative for rural development.

For future information services OPASTCO believes that a nationwide fiber optic network is essential. Many small telephone companies already have installed fiber for interoffice connectivity, trunking, and other applications and several of our members already are involved in using two-way interactive television over fiber facilities to enhance curriculum offerings in local schools. Two-way interactive television permits the teacher and the students at remote locations to truly interact as if they were in the same classroom. For this application, fiber technology is superior to satellite technology because the characteristics of satellite favor one-way transmission.

Despite the progress by small companies in installing fiber for trunking applications, fiber to the home is being used only on an experimental basis, even in urban areas. But getting fiber to the homes in rural areas as well as urban areas is key to the future information age. This is truly the next generation for telecommunications.

Several components are necessary to attain this fiber network and the resulting rural development benefits: financing of the actual delivery facilities, the opportunity to offer the services necessary to make the system viable, and having sufficient pricing and revenues to support the system and services. To realize these components, OPASTCO recommends the following:

- The REA must be in the forefront of financing fiber in rural areas and promote development of new technology specifically for rural areas.
- The FCC must continue its policies of toll rate averaging, pooling for small companies, and universal service.
- The Congress should permit telephone companies the opportunity to provide entertainment television, particularly in rural areas where offering entertainment TV service via the same system can provide revenues to help pay for fiber to the home. At present, independents serving communities of less than 2,500 people are permitted by FCC rules to provide entertainment television. OPASTCO believes this definition needs to be greatly expanded to bring cable service to rural areas and

enhance the prospects for innovation in combined cable and telephone services on fiber.

- Any legislation related to telecommunications in rural areas should not specify technology because technology changes.

One of the key questions that we ask ourselves is whether small companies should invest in new facilities to attract new businesses or should they wait for new businesses before installing new facilities. It is the chicken and egg concept, but in any event, this dilemma brings up some serious questions. At the very minimum, OPASTCO believes that small telephone companies need to be able to have the basic facilities, including fiber optics and digital switching, installed and ready to be upgraded quickly to meet the demands of new businesses and rural development. So that small telephone companies can accomplish this, REA needs to change its procedures and be responsive in making loans quickly to accommodate rural development. Small companies also need realistic depreciation rates to pay for older equipment and install new technology. Most importantly, small companies must have the necessary revenues to pay for the investments that precede and encourage rural development.

Today, the federal government via REA has significantly furthered rural development through small telephone companies who now provide a modern telecommunications infrastructure for rural

America. OPASTCO believes that the most efficient and cost effective method of promoting rural development is to continue this progress into the future. It would be counterproductive and costly to the federal government to duplicate small telephone company facilities by financing other common carrier type activities. Neither rural areas nor the federal government can afford duplicate efforts or facilities.

OPASTCO has limited its comments to the telecommunications infrastructure of rural development; however, our members stand ready to participate in all areas of development. In fact, small companies are ready now to provide state of the art services such as interactive television, transmission of data for medical care, facsimile transmission, and many others. Our networks currently are underutilized in many ways, and we can accommodate much development using the facilities we now have in place.

Mr. Chairman, we have given specific proposals for the telecommunications infrastructure in rural areas: the REA telephone program should be returned to its traditional role of actively promoting an up-to-date telecommunications infrastructure; federal policies on average toll rates and a universal service fund should be continued; and elements such as depreciation rates and the provision of entertainment television should be addressed so as to provide the necessary components for the network of the future. Also, in addition to being common carriers, OPASTCO members are most interested in providing the necessary technical expertise and the necessary services to promote rural development in all areas including education and health.

We believe that the cost of our proposals is very little; other than policy actions, our proposals would require only a modest increase for additional REA staff. The current appropriations for loan levels should meet the needs of REA telephone borrowers, and we also emphasize that REA loans are paid back by the borrowers.

Mr. Chairman, we look forward to continuing to work with you on rural development. Thank you.

RURAL ECONOMIC DEVELOPMENT

TUESDAY, JUNE 13, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Penny, Stallings, Nagle, Harris, Espy, Long, Coleman, Combest, and Holloway.

Staff present: Joseph Muldoon, assistant counsel; Francie Monaghan, clerk; Bill Cherry, Joe Dugan, and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The hearing will come to order. Today is the third day of the month-long hearings on rural development which this subcommittee is conducting. Last week, the members set the stage for the remainder of the hearings, as we heard from representatives of several organizations having a special interest in achieving a common goal—a healthy, vibrant, and economically sound rural America.

Indeed, the testimony presented last Thursday identified specific areas which need attention if we are going to restore our rural economic base throughout this Nation. We talked about the important assistance that can be provided to rural businesses and communities by local rural electric co-ops. We also spoke about the need for quality telecommunication services in all areas of this Nation.

These communications, which compete for economic opportunities, must first be armed with the ability to provide data transmission and telecommunication services similar to, or better than, those available elsewhere.

This morning, we will hear from yet another diverse group of witnesses representing organizations closely associated with rural development. No doubt, we all know the critical role education must play in restoring our rural communities.

We will learn even more about this role from the joint testimony to be given by the Mid-Continent Regional Education Laboratory and the Council for Educational Development and Research.

Telecommunications will be addressed again today in testimony from the National Telephone Cooperative Association, which is most familiar with the problems facing rural America. State and local government must be brought into the loop in any discussion relative to this matter.

Hence, we are pleased to have representatives from the Council of State Community Affairs Agencies joining us, and sharing their concerns and recommendations. Then, we will discuss health-care needs and the policies within rural communities with a representative from the American Academy of Family Physicians.

Finally, we will hear from the National Farmers Union, an organization that has been intimately involved with the family farm and knows, firsthand, the importance of a strong partnership between agriculture and economic opportunities.

I want to welcome our witnesses to this hearing, and we are certainly looking forward to your participation with us this morning as we seek specific recommendations designed to accomplish this awesome task that is before us.

Mr. Coleman.

Mr. COLEMAN. No statement, Mr. Chairman, but to observe that the witnesses today reflect what you and I believe is necessary to accomplish real rural development, and that is, outside the framework of traditional farm programs, bringing in educators, bringing in physicians, health services, and a variety of subjects which impact on rural America, and only through an overall view of things can we really accomplish a comprehensive package.

I will have to be going to another committee for a markup session, in turn, this morning, but I thank you for this opportunity to make a statement.

Mr. ENGLISH. Mr. Combest.

[No response.]

Mr. ENGLISH. Mr. Holloway.

[No response.]

Mr. ENGLISH. Without objection, any member who has an opening statement for the record may submit it within the next 10 days.

[The prepared statement of Mr. Espy follows:]

JUNE 13, 1989

OPENING STATEMENT BY CONGRESSMAN MIKE ESPY BEFORE THE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

THANK YOU, MR. CHAIRMAN. TODAY IS THE THIRD SUBCOMMITTEE HEARING IN A MONTH LONG SET OF HEARINGS. LAST WEEK, WE HEARD FIRST FROM MEMBERS OF CONGRESS ON THEIR IDEAS AND POSSIBLE SOLUTIONS TO THE PROBLEMS IN RURAL AMERICA. SECOND, WE HEARD FROM DIFFERENT SERVICE CORPORATIONS WHO HAVE FIRST HAND KNOWLEDGE AT THE PROBLEMS ASSOCIATED WITH RURAL AREAS.

TODAY, WE WILL HEAR TESTIMONY FROM A CROSS-SECTION OF GROUPS ON ISSUES WHICH RANGE FROM COMPANIES THAT, IN SOME AREAS OF RURAL AMERICA, OFFER TELEPHONE SERVICE TO LESS THAN 2 SUBSCRIBERS PER TELEPHONE MILE, TO ORGANIZATIONS REPRESENTING OVER 66,000 PRACTICING FAMILY PHYSICIANS.

SOME MIGHT SAY THIS IS NO TIME TO PROPOSE NEW FEDERAL AND STATE PROGRAMS. HOWEVER, TO THOSE I SAY WE CANNOT AFFORD NOT TO ADDRESS THESE PROBLEMS FOR BOTH FISCAL AND MORAL REASONS. UNTIL ALL AMERICANS HAVE A DECENT EDUCATION, DECENT HOUSING, AND A DECENT JOB, ALL OF AMERICA WILL SUFFER AND WILL BE HELD BACK FROM REALIZING HER FULL ECONOMIC POTENTIAL. THE ISSUE BEFORE US TODAY IS NOT WHETHER TO THROW MORE FEDERAL MONEY AT A PROBLEM; RATHER, IT IS HOW TO USE OUR MONEY MORE EFFECTIVELY AND HOW TO COMBINE THE PRIVATE AND PUBLIC SECTOR COMMUNITIES INTO A SOLID PARTNERSHIP.

IN CLOSING, MR. CHAIRMAN, I WOULD LIKE TO COMMEND YOU AGAIN FOR HOLDING THESE HEARINGS, AND I LOOK FORWARD TO HEARING TODAYS WITNESSES.

Mr. **English**. Our first witness today will be Dr. Paul Nachtigal, who is codirector of the Mid-Continent Regional Educational Laboratory in Aurora, CO. It is also my understanding that he will be accompanied by Toni Haas and Dena Stoner. Ms. Stoner is executive director of the Council for Educational Development and Research, here, in Washington, DC.

STATEMENT OF DENA G. STONER, EXECUTIVE DIRECTOR, COUNCIL FOR EDUCATIONAL DEVELOPMENT AND RESEARCH

Ms. **Stoner**. Mr. Chairman, if you do not mind, I will begin our testimony We will do it as a group. We have two pieces, and, if you would give us permission, we would like to submit our full statements for the record.

Mr. **English**. Without objection, so ordered.

Ms. **Stoner**. I am Dena Stoner, and I represent the trade organization that represents the regional educational laboratories spread across the United States. They were originally formed 20 years ago, based on the concept that was also used to create the National Institutes of Health.

If you want to try an education idea on the ground, before you get it blown up into a full policy, or a full piece of legislation for all schools in the United States, the laboratories are a place where things can be tried without a lot of risk, and then we will report back to you on how things went.

Rural economic development is a risky business, and the task is so tough in a lot of these rural communities, that some failure is probably inevitable. The object is to minimize failure. Speaking of failure, we have learned one way not to get change in rural public schools.

You do not take into a rural community a big, well-known expert, and announce that, "Your schools have a major problem." Because, for the most part—and the data supports this—rural communities believe their schools are wonderful—oh, they might have a few problems—but they believe there is a real value in having a small school.

To be sure, the problems are there. U.S. students do lag behind students in other industrialized countries in subjects that require higher-order thinking skills. The press has really publicized this in the area of math and science, but we are seeing it, across-the-board, in all other subjects as well.

It is not enough to walk into the class, and say, "Today we're going to teach you how to think." Learning to think just does not happen that way in schools. In fact what you need to do is to teach those kinds of skills in every subject, from reading to geography, from music to physical education, and you need to start down in the elementary schools.

For teachers to teach thinking skills that are required for our society through the turn of the century, it takes a great deal of training, and training takes money. Rural schools with very tight budgets just do not have the cash.

The result is that in many communities the educational program gets further and further behind. When this occurs, it is difficult for rural areas to attract or hold businesses that require professionals.

Professionals want their families to grow up in a community where there are high-quality public schools. The rural economic development research, which you will hear a lot about in this committee, indicates that probably one of the most important criteria for having growth in a community is a high-quality school system.

Given those constraints, what can be done?

My colleagues with me today will lay out a particular idea for your consideration. I will tell you about some things that we are already doing, particularly out of the North-Central Regional Educational Laboratory, where we are testing and demonstrating the use of telecommunications in instruction, in 20 very small rural schools.

The school uses a television program based on fantasy. A student named Norbert becomes anointed as an assistant storylord, and he is called upon to help save a planet. He is going to save a planet from a wicked storylord, and his sidekick Milkbreath. Excuse me, dairy folks here on the committee.

The wicked storylord wants to turn all the good citizens into statues and add them to his statue gallery. But the citizens of the planet can escape by answering a riddle or solving a problem. Using the principle that you really do not know something until you can teach it to someone else, Norbert learns a skill from his teacher, promptly gets on his bicycle, and through magic gets to the planet and teaches the skill to the citizens there.

And every time, he beats the wicked storylord, Thorzuul.

Let me show you a piece of this program. This comes over satellite, down to schools, into their TVs, usually taken off by VCR, backed up with a full set of computer disks where students can also save planets. This program is for first through fourth grade.

[Video shown.]

Ms. Stoner. There is the good storylord. On that mean black bicycle; there is the wicked storylord.

I think you have a taste of it.

[End of video presentation.]

Ms. Stoner. Children love this program, but storylords is just a game, and pure entertainment, unless teachers back it up with their own instructional repertoire, and this is the hard part about telecommunications in educational settings. Getting teachers to reinforce what the technology presents to students through the rest of the day, the rest of the year, and through the following months.

To help teachers do this, the laboratory is linked up with fellow experts at the Wisconsin Public TV Network, and the Wisconsin Department of Public Instruction. Their object was to change the way teachers teach, to correspond with this new kind of technology in the classroom.

They are using a wide range of telecommunications to do that: Narrowcast TV, a whole set of radio programs just for teachers; computer disks for teachers; a bulletin board for teachers so they can talk back and forth, and stay in touch with one reading expert, because there is not one in every school in the rural areas. That one expert is way downstate, in Madison, WI.

Preliminary results indicate that reading scores are up, and data definitely indicate that dramatic changes are happening with teachers who are involved in this program.

Next year, the program is being refined—the teacher part and the student part—and we are moving it into other States. Iowa, Michigan, Minnesota, Illinois, and Ohio.

What have we learned so far about a program like this that you should know, given your interest in telecommunications? A lot of things, but let me just mention three highlights.

One, you must have excellent equipment. When it breaks down, you must have, immediately, a replacement for that equipment. If the stuff does not work, teachers with 30 children in a classroom do not use it, and the investment is gone. They never use it again. It sits there. They are too pressed for time.

Two, teachers need to be trained in the use of this equipment. In rural areas, in particular, many are afraid of it, and the more experienced teachers are the most afraid of it because they have never worked with it.

And three, there are administrators, school board members, and principals, who love the status symbol of the hardware. They love the satellite dish sitting on their school. But when it comes to providing the time to back up the instruction, and support the instruction for the material coming through that satellite dish, we have a problem.

So we have to involve these folks from the beginning of the program in the instructional areas. Successful change in schools is not easy. It is a lot easier to think up a new idea.

Change takes time. It takes careful research to know where the pitfalls are. If we can be helpful to you and your committee, as you think through some of these problems, don't hesitate to call. I will now turn this over to Paul and Toni.

[The prepared statement of Ms. Stoner appears at the conclusion of the hearing.]

STATEMENT OF PAUL NACHTIGAL, CODIRECTOR, MID-CONTINENT REGIONAL EDUCATIONAL LABORATORY, ACCOMPANIED BY TONI HAAS, CODIRECTOR

Mr. **Nachtigal**. Mr. Chairman, my name is Paul Nachtigal. On my right is Toni Haas. We are codirectors of the rural education work for the Mid-Continent Regional Educational Laboratory in Aurora, CO.

We appreciate the opportunity to testify before the committee this morning. We prepared a longer paper which has been submitted to the committee. We would like to have that entered into the record.

Mr. **English**. Without objection, all of our witnesses' written testimony today will be made a part of the record, if you summarize.

Mr. **Nachtigal**. Thank you.

The problems of rural America are well-documented. They are the result of a long history of public policy and private choices, driven by a society dominated by industrialization and urbanization.

Continued rural decline need not be inevitable, we believe. We now have a "window of opportunity" with the emergence of the information age to address this set of problems facing rural America in imaginative ways.

New strategies are needed which bring together a new set of players, making use of existing resources in new ways.

A major resource that is both needed and has been long overlooked in rural development efforts has been the public schools. They are readily accessible by rural communities. All rural communities are served by a public school. Often this school is the largest enterprise in that community, and often, it is the last viable social-service agency available to that community.

Historically, schools have been an economic drain on rural communities. Local tax dollars and the most precious resource, the students, are fed into the system. We consider those schools a success when the students are prepared to leave, continuing their education, and finding employment elsewhere, for the most part never to return.

If this continues unabated over time, the community withers away and dies. We think it is now time to reexamine this set of dynamics. With the information age, what one does for a living and where one lives are no longer as interdependent as they once were.

If the information infrastructure is in place, a growing number of employment opportunities can be located in rural areas.

We have been working with some schools around evolving a new kind of educational program which involves the public schools in community and economic development, and I would refer you to the green cover of "Noteworthy" which I think has been distributed to the committee, for additional information on this program.

Basically, it involves students in the study of their communities, understanding the economics, the economic opportunities that might be there, understanding the social structures of that local community, and then providing those students with the entrepreneurial skills which they need to create their own jobs, if need be, to continue to have a good life in those communities.

The proposal which we would like to put before this committee brings together the resources of the land-grant institutions, the public schools in local communities, and regional educational laboratories to address issues of rural community and economic development.

The school of agriculture in land-grant universities has community planners, sociologists, and economists that would be useful to this task.

The public schools have human resources, teachers, and students, as well as financial resources which, if redirected, could be used to contribute to the health of rural communities, while at the same time, resulting in improved education for students.

The regional laboratories have expertise gained from many years of development work, and because they can serve as third-party neutrals, have the ability to provide linkages, access resources, and orchestrate those resources in new configurations.

We are proposing that an authorization of $12.5 million be available for fiscal year 1991 to support pilot programs in each of the regional laboratory regions. Each pilot will involve a land-grant institution, a cluster of rural communities, and the regional laboratory. The moneys for each pilot would be allocated with approximately one-third of the funds going to the university, one-third to the local communities, and one-third to the regional laboratories, and we would suggest that 5 percent of the funds for each of the pilots be set aside for independent evaluation and planning for expanded implementation.

We have put this proposal together in a fairly short period of time. If it is the desire of this committee we would be pleased to provide a detailed legislative proposal following the outline above. Thank you very much.

[The attachments follow:]

Noteworthy

1 Rural Communities and Their Schools: Creating a More Promising Future
5 Blueprint for Schools and Commuity Development
9 Blueprint for Community Input and Investment
13 Blueprint for Studying the Community
17 A Sample Community Survey
23 Blueprint for Entrepreneurship in Your School
31 Sample Business Plan
35 Blueprint for Redesigning Your Classes
37 Learning by Example
41 A School for the Year 2020
43 A Telescope to the Future

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Rural Communities and Their Schools: Creating a More Promising Future

Introduction

Since the turn of the century, urbanization and industrialization have dominated American society. In fact, many people assumed that it was only a matter of time before improved transportation and communication would result in a homogeneous urbanized society. Acting on this assumption, public policy has tended to respond with programs that are more in tune with urban than with rural needs. Rural society, however, has not disappeared. Not only have substantive rural and urban differences persisted, but diversity within rural America has grown.

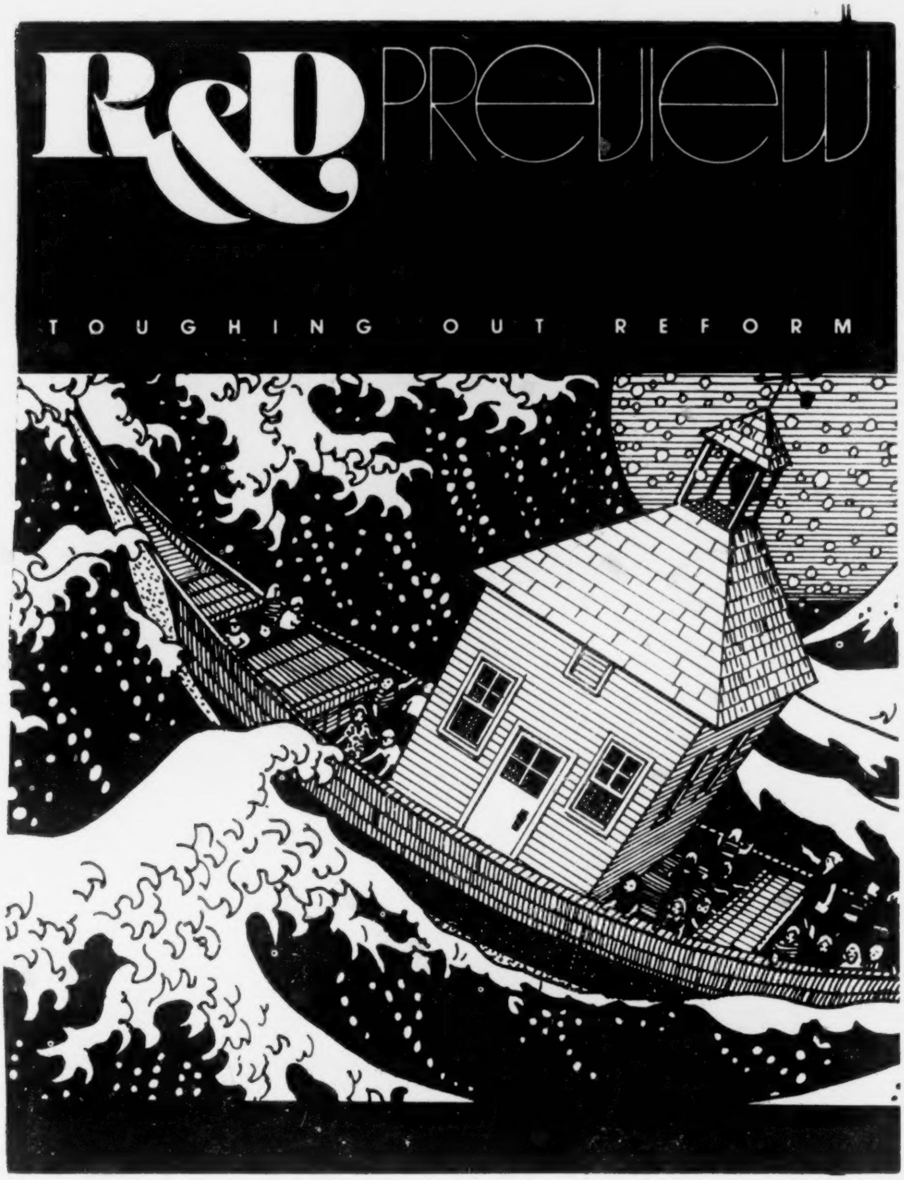
A consequence of the urbanization mind set has been the perception that rural areas were less desirable places to be. The good life was to be had in the cities. It was in the urban areas where one could achieve success. With urbanization came the adoption of the mass-production factory model of schooling, a model that requires large numbers to operate efficiently and effectively, numbers of specialized teachers to teach the increasing number of specialized courses. Since rural schools are smaller than urban and suburban schools, by definition the bigger-is-better philosophy results in rural schools seen as being second best.

By and large, the factory model of schooling has served the country well, preparing the work force required to manufacture and process the goods needed by an expanding society. The larger society's benefit, however, came at the expense of rural communities. Here, local tax dollars and the most precious resource, the community's youth, are fed into the system. The school is considered a success if the graduates leave the community to find work or continue their education, for the most part, never to return. Obviously, if this flow of resources is only one way and continues over time, the community dies. A combination of public policy and private choices in the context of urbanization have conspired against a vital rural America.

Times are now changing. The age of industrialization is, we are told, either coming to an end or has already ended. In its place we are moving into an information/service society. One of the characteristics of such a society is that employment opportunities of the future will no longer be place bound. Given a technological infrastructure to transport information, one can make a decision about where one lives largely independent from what one does for a living. And, considering that the quality of life continues to decline in the cities, more and more individuals are likely to chose a rural life style.

A rural work group at McREL's recent conference on Education In The Year 2020 engaged in some informed speculation concerning what rural education might look like 30 years from now. Believing that the future can be shaped, just as the present has been shaped, by those who came before, the group developed a series of propositions that begin to sketch a more positive future for rural America. As a way of framing the discussion which follows, we offer these propositions for your thoughtful consideration.

(The complete report is held in the committee files.)



R&D PREVIEW

TOUGHING OUT REFORM

R&D PREVIEW

COMMENT

R&D Preview

Raising Young Children In America Has Become A National Crisis

By J. Ronald Lally

None too soon, the Administration and the Congress have gone on record as saying that the United States needs to pay attention to its children and families. The United States has the least developed family support system of any western industrialized nation except South Africa. It also has the lowest relative wages for working women. It's as if we Americans have purposely set ourselves apart from the rest of the world in meshing family and work.

The strain shows. Along with complaints about the affordability, availability, and quality of child care, parents bemoan the lack of family support in general. When something out of the ordinary happens — pregnancy, illness, an unanticipated layoff — the entire family suffers.

It is not this way in other industrialized nations. In France, 95 percent of the children between the ages of three and six are in free public preschool programs that last the length of the working day; in West Germany, 75 percent; in Italy, 70 percent. A significant and growing proportion of children between six months and three years are subsidized in family or group care.

In England, trade union policy endorses comprehensive child care. Finland pays a modest "mother's wage" to women who do not work outside the home and do not use day care. The city of Copenhagen in Denmark bought 20 farms on its outskirts and remodeled them as day care facilities. Buses transport the children.

Every industrial country besides the United States and South Africa furnishes free prenatal, childbirth, and medical care for newborns and mothers. Each of these countries, except the United States, pays a cash benefit to supplement parents' income. Seventy-five countries, but not the United States, have statutes that guarantee a woman's right to leave work for childbirth, protect her job while on leave, and provide a cash benefit equal on average to a five-month leave at full pay.

That the issue has finally become potent here is illustrated by the many family legislation bills before the Congress. Among them are the Act for Better Child Care (ABC), Smart Start, the Child Development and Education Act, the Family and Medical Leave Act, the Employment Incentives Act, and the Dependent Care Tax Credit for the Working Poor. It is important that educators become familiar with these bills and their implications.

The whole educational community needs to attend to the young child. This involves reaching beyond educators' recent interest in three and four year olds. Education begins earlier than that. Conditions that influence how an individual will take advantage of education begin even before birth. We must take a look at what is happening to younger children and their families, learn from it, and develop strategies in schools and communities that accommodate these early experiences. The schools of the 1950s will no longer do. We must build whole educational *systems* that reflect family life as it will be in the year 2000.

A strong research agenda would examine both the services and the systems that will be most helpful to children, parents, and educators. It would look at what happens to young children as they move from one system to another — from the family to preschool and then to school. We know that these are critical transition points in a child's development. When children's expectations are not met in the shift from one system to another, they're more likely to fail. What we don't know is how to facilitate the smooth flow.

We also need to learn more about the effects of social problems on young children. Some inner city hospitals are reporting that over 50 percent of their deliveries are to drug addicted mothers. In addition to the obvious research on stopping drug abuse, there needs to be research on helping teachers and parents cope with the emotional problems and learning disorders that result from these births.

The stresses on children growing up in a single-parent household or homeless are no less urgent. Single parent households have increased from one in eight in 1970 to one in five in 1980. There are one million homeless children in the United States, none of whom receive infant, toddler, preschool, or afterschool care. Research has shown us that children's fundamental values are formed by the time they are five or six years old. One question that weighs heavily is where and how do these children learn the fundamental values that will take them through life. What are they learning from our neglect?

Raising young children in America has become a national crisis. It's full of questions that so far have few answers. For the federal research agenda not to respond is unacceptable.

J. Ronald Lally is director of the Center for Child and Family Studies, Far West Laboratory for Educational Research and Development, San Francisco, CA.

CEDaR

(The complete report is held in the committee files.)

Mr. **English**. Thank you. I appreciate your testimony very much. One of the questions that comes to mind is this. As I understand it, we really have two different technologies that we are looking at, as far as education is concerned, one being the use of satellites, and the other being the use of fiber optics, and the so-called talk back capability that fiber optics would present.

Do any of you have any thoughts with regard to which of those two technologies might be most beneficial, which might have the greatest benefit, what the pluses and the minuses are, of each particular approach?

Mr. **Nachtigal**. We have been working with three pilot projects in the State of North Dakota around the use of technology. First is satellite instruction; the second is fiber optics; and third is a much more affordable system for small rural schools, which is an audiographic system which uses computers and existing telephone lines for interactive communication, both visual and the audio.

We are currently taking a very careful look at what the pros and cons are of each of those applications. Clearly, for some applications, satellite instruction is fine. There is very limited interaction, even with the best of systems, using the satellite instruction.

Fiber optics provides you the two-way communication. It also provides the local control of curriculum and instruction which you do not have with satellite instruction.

Ms. **Stoner**. If you will notice in our example that I gave, this program came by satellite, but it was backed up by radio, narrowcast TV, and other strategies, other kinds of ways of delivering systems.

It is best if you have a number available, and use them in a group.

Mr. **English**. What is the role of the more traditional classroom teacher? It would appear that this particular approach is going to change, tremendously, the relationship of a classroom teacher with the student. The classroom teacher almost becomes someone who does not have a primary role, it would seem, in this exchange, particularly if you have a talk-back type of capability between the students and the teacher, who may be miles away.

Ms. **Stoner**. It depends what you want to do. It is technically possible, and we tried it 20 years ago with educational TV's, where we tried to eliminate the teacher from the classroom and just put TV's up in the front of big halls. I think Mr. Stallings probably remembers this.

We had "Talking Heads" and some interactive telephone, and it was a dismal failure. There is no way that technology really can work, without the teacher in the classroom really being in control of it, in a very important way.

Mr. **English**. That being the case, then how knowledgeable does that teacher have to be with regard to the subject that is being taught. It would seem to me that one of the disadvantages that we have in our small rural schools is the very limited curricula that they may have an opportunity to offer. The thing we are searching for, is to provide a comparable education for children who are going to a school that may be very small, and may not have the resources that larger schools have, but they would have the opportunity to acquire the same courses at the same educational level. Is that correct? Is my presumption correct?

Ms. **Stoner**. I see Toni pulled the mike up to herself, too. Let me take a stab at it. You only saw the student piece. There is an even more in-depth, complex, teacher-in-service piece that goes with this, that is built for teachers. So there is no way that an adequate, well-rounded telecommunications program with instruction can just be for students.

There has to be a complete surround of in-servicing for those teachers. If we cannot figure that out, we probably are going to have difficulty with telecommunications technology.

Mr. **English**. I guess the real question I am asking, the bottom line is: How much training and educational level in a particular subject must a teacher have before they can effectively carry out this kind of program?

Ms. **Haas**. Mr. Chairman, it depends, in part, on the teacher, and it also depends, in part, on the program. What we have found is, that if you have somebody who has, for example, the ability to teach first-year French, who teaches first-year French, cannot do the advanced courses but monitors students who are taking an advanced course via satellite, that teacher's skills in French increase dramatically.

You build capacity in the teachers at the same time you are teaching the students, but it is a three-way partnership.

Mr. **English**. I guess the question I am asking, though—and my time is up, if the members will bear with me—is, If your school has no French teacher, can your English teacher carry out that first-year French and second-year French?

Ms. **Haas**. Yes.

Mr. **Nachtigal**. Yes.

Ms. **Haas**. Our data says that yes.

Ms. **Stoner**. Yes.

Mr. **English**. Mr. Combest.

Mr. **Combest**. Thank you, Mr. Chairman.

I really do not have any questions, and I certainly do not have any hard questions, but one of the problems, I guess, in rural development, is an overall approach to dealing with rural development. In addition, it seems like too many times in the past we have sort of narrowed in on maybe one area, and that basically was the economic area.

We are missing the boat, or have missed it, I guess, and I think what is happening today is indicative of the direction that we want to go, and that is, you have to recognize the overall problem.

In so many rural communities, the school is sort of the cornerstone, that and the hospital——

Ms. **Stoner**. That is right.

Mr. **Combest** [continuing]. And the failure, or the loss of those devastates a community in terms of being able to attract further growth, certainly new companies or businesses; but just expansion of, and just the subsistence of the businesses that are already established there. I think it is important to take an overall view.

Ms. Stoner, are you a teacher?

Ms. **Stoner**. I was.

Mr. **Combest**. Yes. You made an interesting presentation. I want you to tell me what happens at the end of the program.

Ms. **Stoner**. Well, I can tell you, at the very end of this series, the teacher is exposed to be an underground agent for the good.

Mr. **Combest**. Well, I guess that happens in things other than just Congress, Mr. Chairman. [Laughter.]

In my district in west Texas, we have a major university that is doing some development work. It is called Mednet. It initially started off with some basically outdated microwave stations in which the medical school begin to go into other branches of the university that they had located in Odessa, Amarillo, and El Paso, and begin and try and assist in taking some of the expertise that was at the university medical school, and making that available to small rural hospitals.

In fact I will use this as an example because I was there when one of these came across the wire. A woman, in a rural community, had come in. She was expecting and had come in for a check-up. The doctor felt like there may have been somewhat of a problem, and sent over something. Not being a medical person, I did not exactly understand what it was. But it could be studied, it could be looked at there, and then information gotten back, and it is a tremendous benefit.

It not only benefits having to keep someone from having to travel 50, 60, 70, 80 miles to a hospital; it is instantaneous, and it helps that local hospital stay open. It is limitless, as far as what can be done in schools, both at the college level, teaching law, teaching medicine, teaching courses which are not available in small community colleges, even into high schools and junior highs, with providing the type of information that is available at Tech.

And it was an interesting question that the chairman asked, if an English teacher would be able to deal with a French class. You would not necessarily have to have a staff, at least in their study so far. You would not have to have a staff that was thoroughly versed in the area which was being taught, but basically, just someone there to make sure that it was received, and the communication actually was instantaneous, it was live, and they could communicate back with the people who were doing the instruction from the originating institution.

It is something that is getting off the ground. It has been looked at for a number of years now, and it is something that has tremendous opportunity. But what really intrigues me about it is the capability of taking a facility which is in a town of close to 200,000 people, and has a major university, and putting that in the rural areas, it tremendously enhances what that rural community can do, whether it be a hospital, school, or whatever the case may be, in using their resources to help them stay viable, and it brings them up to date.

I taught school for a period of years, a number of years ago, in a rural community, and most educational techniques and advances happen in the larger schools, in the larger towns, and they are the last to get it, out in the rural community, and this, again, is a detriment to that.

If we can help curb that, stem it, do whatever it is, I think with the kind of work you are doing, this is something that in a few years, hopefully, we will see out there as a major part of the educational system. Because I think there is nothing from this that comes but good for these rural communities, and the educational cornerstone is so important to the survivability of these schools and communities. Thank you.

Mr. English. Mr. Stallings.

Mr. Stallings. Thank you, Mr. Chairman. I am intrigued with the testimony because we have been doing some of this in Idaho. Apparently the driving force in my State has been a need for excellence in math and in science, particularly on the secondary level. I am not aware of much on the elementary level.

I guess the question I have for you—and I suspect you have touched on this in some of your own research—is: What is the mechanics of a program like this on the State level? Does this supercede State or local county school boards? You have the State now setting up a curriculum, and if a school district buys into it, then they are absolved from the responsibility themselves of hiring a good math teacher or a good science teacher, or whatever your program might be.

Mr. Nachtigal. It is an excellent question.

Mr. Stallings. You are absolutely right when you made the comment that on television, you just cannot teach it; you have still got to have a teacher in the classroom.

Mr. Nachtigal. We do not see it as certainly replacing local school boards, and in fact we would encourage the strengthening of the local control on those local boards to make the decisions about the kind of programs that come in. The way we view rural schools operating, it is a combination of a curriculum which is focused on the local community, so that students understand the basic concepts which are a part of a local community's operation, whether it is the economics, whether it is the science, whether it is the language arts that goes into the newspaper publishing, or whatever.

Where technology is useful is to then expand those horizons as a window into the larger world, and for bringing in the very specialized kinds of courses that rural schools cannot provide. But it is a combination of those two, and we do everything we can to strengthen that local decisionmaking in this process.

Ms. Stoner. Congressman Stallings, if I could take a shot at that. Those of us who are in the classroom and visit a lot of schools know very well what really drives curriculum in a local school, and that is what textbook they are using this year, and what is in chapter 1 and chapter 2, and chapter 3, till you get to the end of chapter 25 at the end of the year.

If that is not controlling curriculum, I do not know what is. What this is, what we are providing, is a tremendously flexible system that can be used by the local educators, and the policymakers there, to help determine intensity and the kind of programming they want. You can put this on a VCR and use it when it comes in over the satellite, or you do not have to participate.

So it does not change local control. In fact there is more flexibility for local and States with technology than what we now have.

Mr. Stallings. No, I appreciate this, and I think the potential could very well be the salvation of the rural school districts. There is no way that some of my small schools could hire the kinds of skills on their actual declining budgets because of the downturn in the local economy. For them to compete with the larger school districts, to hire competent math teachers, or science teachers, or English teachers, puts them at a real disadvantage.

So this kind of program I think has some tremendous possibilities, and in fact could turn around our rural areas. I just wonder, at some point, if the local school board, being pinched for dollars, might put their money into a good football coach and then buy one of these total programs so that they would not need more than some secretarial help to monitor the classes and turn on the television set at a given time.

Ms. Haas. I think we see that as part of our role. Part of what the labs do is work with communities and work with parents, so that they have some way of evaluating the kind of programs that their kids are getting in schools of every size.

We would hope that there would be enough moms who would think the football coach was not quite that important, and we will help them understand that.

Mr. Stallings. One of the things that they are trying is to identify, for example, an outstanding math teacher in one of the small school districts. Then they put him on the air, and let him teach 1 week in a school district in the central part of the State, and then another week, and constantly have give and take, the two-way communications with the various schools.

So that kids in each school become very familiar with this instructor. And that seems to be working better than just the canned program.

Mr. Nachtigal. Yes. I would agree. We have a project in North Dakota, again, where a language teacher, a Spanish teacher from Bismarck—which happens to be the biggest school district in the State—is teaching Spanish language to six little schools up to the north of it. He goes up and attends their basketball games and provides the human interaction as well as quality instruction, and it is a way of sharing those resources with the smaller schools.

Mr. Stallings. Thank you, Mr. Chairman.

Mr. English. Mr. Holloway.

Mr. Holloway. I feel very qualified to speak on this since I graduated with 21, and my two boys just graduated with 14 and 13 in their classes. I am from a very rural area of Louisiana. Of course in the rural areas one of our biggest problems is finances for education, or whatever else it may be. Is this a savings for school boards, for education? Are they allowed to consolidate classes? I guess you would depend on numbers, I think. When you have 10, or more, it is kind of hard to consolidate.

But in some of the rural schools, which I totally disagree with busing kids for 40 and 50 miles, and so I guess that is the greatest gain we could have from this, is to be able to keep our schools in our rural areas without having to bus the kids all over the country.

Is it a savings? Can you consolidate classes through these programs?

Ms. Haas. If you move the information, instead of moving the kids, you have got a terrific savings with transportation. In the Upper Midwest, where I am from, consolidation is "fighting words" to small schools. Could we talk about instead—can you provide instructional services to kids at a lower cost per kid? Yes, with some technologies you can.

What is not exactly clear yet is whether there is a cost benefit to how much the kids learn. As the technologies get better, and as we get cleverer at evaluating how well the kids are doing, I think we can, in 5 years, say some more definitive things about that.

Ms. STONER. I guess I would like to address that, too, because you make an assumption in your question, and that assumption is, can we do as well as we are now doing with less cost? For us, in the United States, given our competitive environment, we have to ask the question, Can we do better than we are now doing in classrooms, in the most efficient way possible?

The problem is, if we do not raise the amount of learning that is going on in these classrooms, for a lot of students, and keep them interested—we have tremendous dropout rates in a lot of States.

In the State of Oklahoma, for example, the dropout rate is very high in some areas of rural Oklahoma, and students drop out if we cannot connect programs with their interests, and that is the task that these kinds of technologies can help us meet.

Mr. HOLLOWAY. Yes. We have the highest dropout rate in the Nation. I think we have to do better. My question basically is: Can a teacher take, in a very rural area, two or three classes, and with this technology be able to do a job with these students, enough, that we can do better than meet the status quo?

Mr. NACHTIGAL. Yes.

Ms. HAAS. Yes.

Mr. NACHTIGAL. The answer to that is yes.

Mr. HOLLOWAY. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Holloway. One final question that I would have is, That given the cost of the technology that we are talking about, do you envision this as being a system which virtually every rural community is going to be able to afford, or is this a system that is probably going to be available only to certain schools with populations above a certain amount, whatever it may be?

Mr. NACHTIGAL. There are perfectly adequate systems for teaching most courses. It is not the two-way interactive video. It is the audiographic notion, which links computers and existing telephones. School districts can get on that kind of a system for less than $5,000, and pay only line charges, and it is a perfectly adequate system for teaching most courses.

The interactive video is more expensive, and we are just now beginning to get a good feel for the costs, and it depends a lot on who is laying the cable, and what kind of a lease you can work out with the telephone companies. But it is clear that the small schools can afford even the interactive video, and it is more a matter of access than it is cost at this point.

Mr. ENGLISH. I have not noted, though, any great rush by the school systems to implement this kind of program or to acquire this kind of system. What problems are we going to have from a resistance standpoint? Are we running into a situation where education is so regimented in its approach, that it is going to be difficult to overcome resistance within the teaching community, or is this something that they are accepting and eagerly awaiting?

Ms. **Haas**. My colleagues are no more anxious for change than your colleagues, sir, and change comes slowly. The slowness of the change is compounded by policies that provide money only for hardware, and do not understand, that for every dollar you put in hardware, you had better put 75 cents in software and staff development, getting people used to the new equipment, and used to thinking about teachers as facilitators of knowledge instead of teachers as controlling all the knowledge in the classroom. It is a big change.

Mr. **English**. We are looking at the whole question of rural development, not just the slice dealing with education. The question that we get into—and our next witness, I am sure, is going to talk about this, is fiber optics. If fiber optics is brought to a community it is going to be dependent not just on education; but the business needs of that community and the opportunities for development.

Ms. **Haas**. That is right.

Mr. **English**. So what I am wondering is, up to this point has distance teaching been considered primarily from the standpoint of teaching for teaching's sake, as opposed to a part of an overall system that is being implemented in a community?

Ms. **Haas**. In the work that we are doing, what we look at is the school as a resource for community development, which includes opening up the walls of the school, making the school a part of the whole community system; wiring it in, but making the community a part of the school, giving people who live in the town access to the school's equipment, to the school's instructional programs, to the whole resource that the school represents.

Mr. **English**. In looking at developing a rural development bill, we want to encourage rural telephone companies to put updated communication systems in the communities. Well, every community may not be able to afford or justify that type of modernized up-to-date communications center.

Should we be looking at education in somewhat the same light? Does this all form a part of an overall package, saying that if the community in fact cannot justify that kind of system, it is highly unlikely that community is going to be able to justify the type of system which you are talking about?

It is highly unlikely that they are going to be able to justify a rural hospital, and the type of rural health care that is really going to give them a chance to grow.

I guess that at some point this is an extremely difficult question to wrestle with, with very scarce resources that have been fragmented, and are literally going in every direction.

Ms. **Haas**. That is right.

Mr. **English**. Once we pull all those resources together, and we start directing them toward a common goal—and that is really what these hearings are all about—is to try to pull all these loose ends together, and look at this as a comprehensive approach to a community, and trying to make certain that that community is economically viable, has a chance to grow, and has a future.

Are we going to have to draw that line as far as education is concerned, as it appears we may have to draw it in other areas?

Ms. **Haas**. Rural triage. Yes; probably.

Mr. **English**. Thank you very much. Mr. Holloway, do you have any other questions?

[No response.]

Mr. **English**. Mr. Penny, do you have any questions with regard to rural education?

Mr. **Penny**. I just want to welcome this panel. I just came from a markup on the soybean promotion bill, which, incidentally, is another way we can help our rural economy. We can help the various commodity groups better promote their products, find new markets, find new uses, which will bring more money into rural areas and help our economy.

I appreciate the interest that this committee is showing in education as part of our rural development concerns. While we cannot necessarily mark up all of the education programs in this committee that will have a bearing on rural development, there are some things, through university extension and research that we can do, that I think will be quite beneficial.

And perhaps technologies through our cooperatives—satellites, fiber optics, and others—that can help bring education to rural school districts, and maybe right into the home, are all things that we ought to be pursuing.

I am sponsoring—just to mention this in passing—a bill tha would fully fund Headstart, and I was pleased to have sign on as one of my first cosponsors, Harley Staggers of West Virginia. His reason is that under the existing funding levels, only one-fifth of the students eligible for Headstart are served, and that means a State like West Virginia, that has a tremendous need for the program in many rural districts, is not seeing very many of those students reached.

And one way to reach all of those students is to fully fund the program, so that we can move beyond those areas with the highest population concentrations, and make sure that those services are available in rural areas. This will get those students off to a better start and result in many savings down the road, because we will keep them in school, it will avoid delinquency, it will help them in the job market, and all the rest.

So I appreciate this panel being here. Paul, I specifically want to thank you for the help you gave "Americans for Generational Equity" in putting together some of our rural education conferences over the past several months. And Dena Stoner, I have worked with her on a number of issues. She has been on the Hill, and now, off the Hill, working in the education community, and we appreciate her leadership. Thank you so much.

Ms. **Stoner**. Thank you.

Mr. **English**. Mr. Nagle.

Mr. **Nagle**. I apologize for being late. I am sure Mr. Penny has explained that we had a markup in the other room. I am curious. If I could ask the panel—and if you addressed this, I apologize—but the commitment of my State, Iowa, that I represent, to education, I think is not only well-known, but also well-documented. We consistently place in the top on the ACT scores. I think generally we are first in ACT's and second in SAT's, and, historically, we have swapped with Wisconsin that honor.

Some of our rural areas have a strong commitment to education, but a recent study indicates that although Iowa is probably doing a good job in public education—not that we could not do better—we have seen, over the last 8 years, our status, in terms of wage-earners, and average salary made by people who work in Iowa, drop until we are now, I think, fourth from last. In other words, we are educating well, yet we seem to be engaged in a great "brain drain." We educate, and yet the jobs are not available.

I mean, we have replaced, historically—and I do not mean this as a slight to my colleagues from the South—but we have replaced the historically low-wage States that now, all of a sudden, have started to crop up, of course, finally, in the high education States. That is a disturbing trend, and I am curious to know whether any of you have any thoughts about how we address that problem, whether it is a phenomena that you are seeing in other rural areas, and what observations or insights you would have into that phenomena for me.

Mr. NACHTIGAL. Well, you are certainly correct in that there has been a "brain drain" from rural communities, and it has been going on for many, many years. We did talk, briefly, earlier in our testimony, about a program which we have under way, which I would refer you to a copy of the green "Noteworthy" which is on your desk, I believe. It is a program which helps turn that "brain drain" around, or at least provides options for students to remain in rural communities if they wish to.

It is a program which builds a lot of entrepreneurship training into the public school curriculum, and it is a program which has students looking at their local communities, studying those communities to understand the economics and the social structure, and, we are finding that as students become more acquainted with their communities, really understand what is going on, their attitudes begin to change about whether or not they want to leave.

And with the entrepreneurship training, they are provided the skills with which they can create their own jobs, if need be, and we think that given the information society, and the fact that what one does no longer needs to dictate where you live, that we can begin to make a difference around that.

Ms. STONER. I participated, as one of the lead researchers, in a large study of the State of Wisconsin about 3 years ago. I worked and lived in Wisconsin for 10 years, and watched the same thing happen in that State. Per capita income was beginning to drop; very high education costs in the State, particularly in higher education; and watching the graduates go, and not stay in the State.

It creates a tremendous political pressure on politicians to justify those expenditures, and I understand that. The only way I know how to deal with it is to do what we are doing in rural communities with the lab here at Mid-Continent, and some of our others which are beginning to look at schools as something that should not necessarily be shut down in the summer. They should be used as a resource that is used for business training. The school has a transportation system, it has a large kitchen, and it has a whole lot of things sitting there, paid with tax dollars, and maybe they can begin to use some of that investment in a very productive way to help the economy of the community.

Mr. **Nagle**. I had with me, a couple of weeks ago, a couple of reporters, one from the Los Angeles Times and one from the Fort Worth Herald Telegraph, that were trailing me around Iowa to measure the political pulse, and we went to Rockford High School, just a small high school where I had agreed to meet with the government class, senior students, and so I did. And at the conclusion, in a class of about 50, I asked how many planned on attending college, and about 75 percent raised their hands.

I spoke at BGM, and about 80 percent raised their hands in terms of attending college, or post-high-school education. To the people from Los Angeles and Fort Worth, this was phenomenal, where maybe 50 percent of their kids do not graduate from high school, and we are sending about 80 percent of ours on to college.

Not that we cannot do a better job with education, not that we cannot utilize our facilities more; but I do not necessarily think that that alone provides the answer. The problem is that we are educating people, and then they are gone because there is a lack of opportunity in their hometown.

And I think you are correct—if you put a prognostication on that—that at some point someone is going to raise a question, why are we educating all these people for the benefit of California and New York? I think it is a resource that we are probably going to lose, and I do not think at this point in our Nation's history we want to be encouraging any steps that would undermine public education in States that are doing it well.

Ms. **Stoner**. It is one of the strongest arguments for the Federal role in education. It is to be understood that some States will have a marvelous program in engineering, and they support it from their tax dollars, and those engineers will go all over the country. Or a marvelous program in mathematics or science. And it is in the national interest that they do it. We need to think through our priorities, in terms of funding, about that kind of thing, so that it is not just a local-State burden, and we do not create those political backlashes, and undermine those programs that we so need for the future.

Mr. **Nagle**. I thank the panel. I am sorry that I missed your testimony. I will review it. We just simply had another one going at the same time.

Mr. **English**. Ms. Long.

Ms. **Long**. No. I just got here.

Mr. **English**. Thank you very much. I want to thank our witnesses, you have done a great job, and we deeply appreciate your testimony.

Ms. **Stoner**. Thank you for having us.

Mr. **English**. Thank you. Our next witness is Mr. Gary Kennedy, who is manager of the Panhandle Telephone Cooperative in Guymon, Oklahoma, testifying on behalf of the National Telephone Cooperative Association, here, in Washington.

Gary, as I told the previous witnesses, without objection, the written testimony will be made a part of the record, so feel free to summarize.

STATEMENT OF GARY KENNEDY, MANAGER, PANHANDLE TELEPHONE COOPERATIVE, ALSO ON BEHALF OF THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

Mr. KENNEDY. Thank you. Mr. Chairman, and distinguished members of the committee, my name is Gary Kennedy, and I am executive vice president and general manager of Panhandle Telephone, which serves approximately 4,200 rural customers in western Oklahoma.

In addition to Panhandle today, I am also testifying on behalf of the National Telephone Cooperative Association, which represents nearly 500 telco systems in 41 States.

It is a pleasure to meet with each of you, and I appreciate the opportunity to appear before you.

The topic on our agenda this morning, of course, is rural development, which is important not only to NTCA members and their subscribers but to the entire country. Though rural development can assume many forms, I would like to focus on it from a telecommunications perspective.

Actually, most NTCA members, including Panhandle, are already involved with rural development. As their primary lending source, the Rural Electrification Administration's, Telephone Loan Program is perhaps the country's finest example of a successful rural development program.

There is little rural development that could not be accomplished through the utilization of the REA and Rural Telephone Bank telephone loan programs. Whenever I focus on rural revival, the three greatest obstacles facing rural communities that arise are a lack of adequate employment, education opportunities, and quite simply, distance. Telecommunications development allows communities to overcome all three.

Through educational telecommunication linkups, we could allow our educational facilities to form partnerships with rural telcos, to enhance the education process through the development of a two-way interactive video system.

We have established the Panhandle school video project in our service territory. Working with the local school board in Beaver County, we setup a network to allow the schools in this jurisdiction to share resources. The advantages of such a system are many, including: the stimulation of a healthy exchange between the students from throughout the region; the ability of one teacher to work with students in different locations simultaneously; the offering of classes previously not available; and a general overall savings of the taxpayers' dollars. We are currently working with other school districts to provide similar services.

America is in the midst of an information age, as you have already heard today, where large volumes of data and other information are exchanged regularly.

Not surprisingly, the telecommunications industry plays a significant role in this process. Therefore, considering the available workforce and the favorable business climate that often exist in our rural communities, those that are technologically prepared stand to gain significantly in the coming decade.

And of course, the important role that telecommunications plays in overcoming the so-called penalty of distance that is associated with locating rurally is obvious. With advanced switches, local telcos are able to allow the transmission of all forms of electronic data over this line. Health links could also be established which would provide rural facilities with the ability to remain a primary provider while relying upon a telecommunication link with large, more technical resources for input.

The same concept could be utilized by farmers and ranchers who could use such a linkup to access information service provided everywhere, from market updates to agricultural statistical data, to government reporting capabilities.

The cost of rural development can be significant and should not be dismissed as unimportant. There are currently several existing Federal programs that are available to help local businesses offset such costs.

Specifically, most of the concepts I mentioned a few moments ago are available through the REA and the RTB telephone loan programs. Our major problem has been getting the administration to acknowledge this fact. Simply insuring the existence of the REA Telephone Loan Program, however, will not guarantee borrower success and commencement of rural development. Improving the lengthy and difficult loan application approval process is an equally important issue.

Finally, the last key that is necessary to unlock the REA Telephone Loan Program is congressional assistance in addressing many of the restrictive REA Program regulations the agency recently issued.

Mr. Chairman, I know you are already working on this, and I thank you for that, but I did want to let you know, it is a major concern to us. These regulations would have a broad negative impact on rural development if left unchanged.

Members of the committee, in general, so much is possible under the REA Telephone Loan Program, yet as of late, so little is being accomplished simply due to the uncooperative nature of the administration.

It is a problem that could easily be rectified through the use of guidance legislation that could be incorporated in your rural development package.

In closing, I would like to thank each of you, once again, and remind you of the importance of rural development. Implement it now and the entire country will prosper. With your help, the telecommunication industry in rural America can maintain a universal concept that industry and Government have worked so hard to build and maintain through the years.

Mr. Chairman, I would answer any questions, or try to, that you would like to ask.

[The prepared statement of Mr. Kennedy appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Gary. I appreciate your testimony. I know that your company has been one of those that has been active in trying to move ahead with new technological developments. Certainly, the Panhandle of Oklahoma is sparsely populated in many regions, and the question of fiber optics has arisen.

Can you give us some feel as far as the cost of installing fiber optics, and what is necessary to justify that cost? Also, how is fiber optics related not only to the educational system, but to local hospitals as well as local business?

Mr. **Kennedy**. We installed 53 miles of fiber when we put these four schools on line. That would not have been economically possible without using the fiber also for telephone service. We use it for some of our long-distance lines.

If you put fiber to each one of the schools, it probably could not be supportive costwise, but by using those facilities for other projects, I am of the opinion that it can be accomplished, sir.

Mr. **English**. Can you give us some kind of feel what it is going to cost to bring that kind of technology into a rural community? Let's say a community is 20 or 30 miles away from the nearest source. To lay that fiber-optic line, and make it available to the community, the hospital, and the school, what kind of cost are we talking about?

Mr. **Kennedy**. In this particular project that we installed out there by using the FCC allocation procedures, we allocated approximately $350,000 to this project, which those four schools did get grants to cover that initial cost, and we said we would provide this service for 5 years, for that cost of the—that they received on the grants.

I think it gets back, if Congress may loosen up the rules, give the rural telcos a little more authority on what we can do or process out, I think it can be done, sir.

Mr. **English**. You are talking about using the REA funds?

Mr. **Kennedy**. Yes. With REA funds and being able to use the distributor cost over other projects, I think it can be done, sir.

Mr. **English**. In making the decisions in the areas that you have installed fiber optics, do you take into account—or I should say, in the communities that you have installed it, have the business needs of that community also played an important role?

Have they had any opportunities, as far as businesses that might be able to come into those communities or any businesses that might start up in those communities, or in any way enhanced the ability of businesses in that community to operate—was there that demand factor, or was it strictly from an educational standpoint that you had to base the decision on, whether to install fiber optics or not?

Mr. **Kennedy**. Originally, it has been based on educational, but we have four schools that are connected now. We plan on going ahead and getting the other 10 connected in the next 2 to 3 years. We also are going to connect a university out there to this, where the university will be able to teach some of the classes, and they will be able to have adult teaching also.

And the four courses that they started out with—they only started out with four—was advanced English, advanced accounting, Spanish and art—and I was really surprised to see how the artwork, could go over this interactive system, and the teacher and the students exchange back and forth.

When there was a problem, the instructor was able to suggest to the students what they needed to do to improve their art. They did not have a qualified teacher in each school out there. This was handled by a qualified teacher at each school.

They plan on adding four more subjects this fall, which will be a total of eight.

Mr. ENGLISH. What is the smallest school that is served by the system?

Mr. KENNEDY. Probably somewhere around 125 students, so it is real small, and as you can see, 53 miles is quite a long way to put fiber in the ground.

Mr. ENGLISH. Is each school judged on its own merits, or is the fiber-optic cable installed because you are putting in a system in a number of schools, and it reduces the overall cost?

Mr. KENNEDY. When we looked at it, it reduces cost. I mean, by having more schools on it, the cost was less, yes. We did not charge one school more than the other. They all paid one-fourth of the cost each.

Mr. ENGLISH. Thank you. Mr. Nagle.

Mr. NAGLE. I was particularly intrigued by your observations about the use of the REA loan program. Apparently, over the last 5 years, 6 years, you have encountered some problems with the past administration in terms of getting access to funds to do upgrades, and development?

Mr. KENNEDY. Yes, and it has been harder the last 5 to 8 years to obtain certain funds. We have recently submitted a loan to do four more schools next fall, so I cannot answer you how they will look at this video network at this time, but we have applied for a loan.

Mr. NAGLE. Well, you may serve as a vehicle for the message I want to deliver, but there was a report entitled "Plowing Under The American Farmer," which showed that the 25 rural-based States in fact sent a total of $31 billion more simply to the Defense Department than they received back in all Federal payments. There was a sequel to that study, that was just released last month, that indicated that, I think, 321 of 435 congressional districts received no benefit from that Defense spending.

In essence, what we have asked rural America to do to support the Pentagon development and buildup is, at the same time, restricted the amount of funds available to them to help them diversify their economy, diversify their infrastructure, build up their infrastructure.

And so it seems to me that what we have is, we have a lot of money flowing out of rural America, and even money that is available, being restricted in terms of coming back in. And you point out in your testimony, I think quite rightly, that the perception that we can simply have urban clusters of populations, creates as many problems in traffic and sewage disposal, and waste disposal, and affordable housing, all of those communities that are available in rural America at a relatively low cost, where we do not have traffic congestion and we do not have waste disposal problems yet, significant ones, and we have good educational systems.

I would be very interested, as one Member of Congress, in monitoring with you how the telephone loan fund is utilized, and whether in fact it is going to continue to be restrictive, and we are going to continue this imbalance and shift of resources in this country from the heartland to the coast land.

Mr. KENNEDY. I will be proud to do that. One problem that you have: Out of these four schools, three of them were in our certified area. One of them was not. We had a separate subsidiary set up, and we had to run the costs of the one that is outside of our filed area separate, and keep it according to the FCC accounting. REA will not approve funds to go outside of your serving area.

So there is a little problem there, that we would not have been able to get all the funds that we needed, if we would not have used Panhandle's own general fund moneys.

Of course we are a co-op and I have 10 board members who are looking to invest money and profits back in the rural area, because of what they have seen in the past—once a school or a hospital closes, people leave. I really think that if there is some way we could have good educational facilities, a good hospital, good TV, good telephone service and electrical service out there, we could possibly turn around this out-migration.

[EDITOR'S NOTE.—Additional information submitted by Mr. Kennedy follows:]

PANHANDLE
TELEPHONE
COOPERATIVE,
INC.

Executive Vice President/
General Manager

Executive Vice President/
Operations

June 30, 1989

Honorable Glenn English
Chairman, House Agriculture Committee
2206 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman English:

I would like to again express my appreciation for the opportunity to testify before your subcommittee on the topic of rural development.

I have submitted for the hearing record, some technical corrections of the hearing statement. However, I would like to take this opportunity to answer more fully some of the questions that were asked of me after my testimony on June 13th.

Regarding the use and cost of establishing a fiber optics network, as I mentioned, Panhandle installed 53 miles of fiber to put these first four schools on line. We also use this fiber for some of our long-distance lines and are thereby able to use more of the networks capacity. The cost of installing a fiber optics network continues to decrease as technology is advanced and one of the economic advantages of fiber optics is the large amount of excess capacity that these networks can bear. Once the system is in place, with some additional facility requirements, it is possible to use for educational purposes as well as medical and business link-ups.

You have also asked whether Panhandle's decision to install this fiber network was based only on the educational needs of our service territory. Originally, it had been established for our local schools. However, as I've previously stated, once the network is established and in place, it may be available for use by local businesses to provide data transmission or other services they require. This should prove to be quite an incentive for businesses to locate in rural communities. Also, we chose to install fiber optics because this allowed us to set up an "interactive" video network that actually allows our community to share limited resources as well as provide the students with the opportunity to interact with their instructor.

Congressman David Nagle from Iowa had inquired of our administrative problems with REA and the difficulty in getting funding for upgrades as well as new projects. I would just like to expand on the point that REA is currently authorized to lend for educational television such as our established network. However, there are so many restrictions placed on the borrower even for projects such as Panhandle's educational program, that I'm not sure that we'll be able to get full REA loan assistance when submitting our application to link up four more schools. We've had to use Panhandle's general funds for linking up schools outside of our service territory despite the fact that no one else would have provided the service had Panhandle not agreed to participate in the project.

Mr. Chairman, I simply wanted to clarify some of my answers in response to questions raised before your subcommittee. I felt that I did not address these questions as adequately as I would have liked to in the hearing.

As always, I look forward to working with you as your subcommittee moves forward with rural development legislation.

Very truly yours,

Gary Kennedy

Gary Kennedy
Executive Vice President -
General Manager

GK:gb

Mr. NAGLE. Thank you, Mr. Chairman.

Mr. ENGLISH. Ms. Long.

Ms. LONG. I am curious about this school linkup as an educator. Are the schools all part of the same school system, or are they separate school systems?

Mr. KENNEDY. They are four separate districts. Yes.

Ms. LONG. Four separate districts. And do the administrators and the teachers get together on programs that they are going to be offering? How long has this been in operation?

Mr. KENNEDY. I would like to say, right at the start, that Panhandle does not get involved in that at all. We let them do it. Yes, the school officials do get together. Each day, the four superintendents, after school, talk back and forth between each other. I do not know what they talk about, for sure, but they do communicate back and forth each day.

Also they are providing—I have seen about 10 different projects, after school hours, to people in those communities. So it is being used more than just for actual school. There are also some adult education classes being provided.

Ms. LONG. This appears, to me, to be a very cost-effective way to keep children in schools in their home communities, and still provide them with educational opportunities that typically require a much larger student enrollment.

Mr. KENNEDY. In our area, if you consolidate the schools much more, you are talking about a lot of kids driving 40 to 50 miles to school. I would like to say that Panhandle Telephone thought of this idea. We did not. The school administrators had been working in Beaver County for, I think 4 years, before they got everything together, and they did come—there is another telephone company in the area. They approached them. The other telephone company turned them down. They came to us and we looked at it, and we thought we could see where we could make it work, and we provided the service for them.

Ms. LONG. I did not see the figures in there. What is the total cost of that linkup to the schools? Did you include that?

Mr. KENNEDY. Well, the total cost was the $350,000 that we quoted originally, and no other additional cost for 5 years. We took that $350,000 and applied that against—we apply it against, monthly—their bill, and in 5 years we will have to go back and renegotiate with them.

Ms. LONG. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Ms. Long. Gary, thank you very much for your testimony. I appreciate it very much.

Mr. KENNEDY. Thank you, sir.

Mr. ENGLISH. Our next witnesses are Mr. Neal Barber, who is director of the Virginia Department of Housing and Community Development, and Mr. Sherwood Washington, who is director of community affairs and development division of the Oklahoma Department of Commerce, testifying on behalf of the Council of State Community Affairs Agencies, here, in Washington.

I want to welcome you both, and Mr. Barber, we will let you start off.

STATEMENT OF NEAL J. BARBER, DIRECTOR, VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT, ACCOMPANIED BY SHERWOOD WASHINGTON, DIRECTOR, DIVISION OF COMMUNITY AFFAIRS AND DEVELOPMENT, OKLAHOMA DEPARTMENT OF COMMERCE, ON BEHALF OF THE COUNCIL OF STATE COMMUNITY AFFAIRS AGENCIES

Mr. **Barber**. Thank you, Mr. Chairman. As you have mentioned, I am the director of the Virginia Department of Housing and Community Development. I am also the vice president of the Council of State Community Affairs Agencies, commonly known as COSCAA.

I am pleased to be here this morning to present a proposal responding to the problems that plague rural America. I am also pleased to be with you with my COSCAA colleague, Sherwood Washington, from Oklahoma, as you had mentioned.

Before we jointly offer our proposal, we would like to provide a brief background on COSCAA. COSCAA, as you may know, is a national organization that represents State departments and agencies involved in economic, community, and housing development.

COSCAA members are typically those agencies that deal with the responsibilities of rural development issues in their States. Thus, the proposal we offer you today represents the considered opinions and ideas of the State government officials that deal directly with rural development problems and issues.

Mr. Chairman, States like Virginia and Oklahoma, and many others, have in recent years developed policies, strategies, and programs responding to the rural development needs of our rural citizens.

I understand that during last Thursday's hearing the concept of cluster communities in Iowa was discussed. While I cannot comment specifically on the concept as it applies to Iowa, I do know that the State, and specifically our COSCAA member, was actively involved in the development of that.

Mr. **English**. Could I interrupt you just 1 minute.

Mr. **Barber**. Yes, sir.

Mr. **English**. I forgot to mention, Mr. Barber—I am sorry—and I want to make sure it is clear to you all, and to all of our other witnesses, that their complete written testimony will be made a part of the record, and if they would care to summarize that testimony, please feel free to do so. So everybody is covered by that, sir.

Mr. **Barber**. Good enough. With that, I will go ahead and skip some of this.

As you know, the States, over the recent years that I just said, have enacted a number of policies and programs that address rural development needs, and I think that in the recent book, "Laboratories of Democracy," they noted that, "In the 1980's, a fundamentally new economy has been born." And it has come as a series of problems and new opportunities, and new challenges. In States, government has responded to these challenges.

As part of my written testimony, I have included a whole series of actions by the State of Virginia that respond to the rural development needs—everything from transportation, education, business infrastructure, development—that illustrate the commitment of Virginia to our rural citizens.

Our presentation is organized in two different geographic and economic perspectives on the issue, of Oklahoma in the Southwest, which has much differing economic conditions than Virginia. Virginia, as you know, is in the eastern corridor, and we have benefited a lot from the economic prosperity of the mid-Atlantic region, but yet, many of our rural areas of the State have not benefited, particularly the southside, the Eastern Shore, and southwest Virginia.

I know that each of you on the subcommittee is concerned about rural problems in your district. You are well aware that while the problems will be equally grave elsewhere, the conditions and resources may be totally different, thus necessitating different approaches and strategies to these problems.

Rural problems are too great to be addressed by the Federal Government alone. Only through a combined effort of our State programs, the Federal Government, private sector, and local government, can we begin to address the common objectives and goals that we all share.

Unfortunately, there is no one solution to all of our problems. Thus, we would like to propose a set of principles which rural development legislation can be based upon.

Decisions leading to successful rural development are best made by organizations covering economic market areas. Oftentimes, this expands beyond a small local government unit and includes a number of local governments in a regional effort.

Local, regional, and State development organizations should not be competing with one another. We should be working together for complementing our efforts in rural America. Thus, we need to establish that partnership that I had mentioned earlier—a State, regional, local, Federal partnership which allows decisions to be made cooperatively among the various levels of government.

The problems of rural America are numerous and diverse. Thus, flexibility should be provided within the legislation, and whatever programs are devised to meet the local and regional needs.

Numerous Federal, State, private, and philanthropic organizations have provided funds in rural America. We should not duplicate these efforts, we should complement these efforts, and institutions that are represented in our rural areas.

It is critical that meaningful private-public cooperation pervades all development strategies. To accomplish this, we would like to see State development strategies put forth in each of the States, to be the basis by which decisions are made for investments in our rural communities.

These principles provide the foundation for our proposed Rural Investment and Development Partnership Act. We believe such an act must address the pressing needs of rural America in a comprehensive way and challenge, as well as encourage, the participation of a variety of public and private actors.

Such a framework would have the following components. Congress, hopefully, will enact a new comprehensive rural development program funded at least at the $300 million level that has been suggested in the Senate and House budget bills.

The authority to carry out the various activities should come under the separate titles of the legislation, representing the infrastructure, development, job creation, business, finance, and local capacity-building.

Expenditures on activities within these areas would be determined through a State, regional, and local development process which would result in a State rural development investment strategy. State government should play a key leadership role in the process of developing this strategy.

Funding allocations would be made on the basis of this strategy. Each State should be required to expend a minimal proportion of its funds in each category of investment in accordance with the bill.

For instance, business assistance and capacity-building would have a set minimum that would be expended, with a variation as to the total amount that could be expended in that category.

The investment strategy would be the basis by which we would link State, local, and private funds, toward meeting the needs of our rural communities. The strategy would be developed and approved by the State through a consortium of State, local, and regional development leaders, appointed by the Governor.

A consortium would submit the strategy for funding to the Federal Government for their approval and action. Although various components and aspects of this strategy might well be administered by regional, local, public, and private entities, the State would serve as a coordinating entity for preparing and administering this strategy.

In Virginia, we could use additional funds in a number of areas. While we have enacted a number of programs, there are four specific areas that I can identify today, that additional funds could be well utilized in Virginia.

We, first of all, need to support nonprofit and regional organizations in their capacity to deliver economic development. As I had mentioned earlier, a number of these organizations currently exist in Virginia, but their source of funds are very limited, and they do not have a sustained adequate funding base.

This additional funding would help build the leadership at the local level for economic development. Second, water and wastewater facilities are woefully lacking in rural Virginia. Many of our rural communities do not meet the Clean Water Act and the Safe Drinking Water Act, much less have the capacity to serve an expanded business and economic development activities within their region. Thus additional funds would be necessary to complement State and other Federal funds in this area.

Third is a lack of adequately developed business and industrial sites in our rural areas. Over 70 percent of the industrial prospects coming to Virginia last year were looking for existing, not only land, but buildings to locate in. These buildings and sites are not available in our rural areas. Funds could be used to complement State programs currently in existence to provide these business and industrial sites.

Fourth is the availability of business finance capital in our rural areas. Oftentimes, the banks and the financial institutions do not provide capital at low rates or the high risk that is necessary in our rural areas. Complementary funding for business financing would be much needed in Virginia.

These are a few priority needs of the rural Virginia area. Many other needs exist. Education and human resource development comes to mind, specifically.

With this brief outline of priorities, and a framework for rural development legislation, I would ask my colleague from Oklahoma to sort of outline some of the needs that they have in their State, Mr. Chairman.

Mr. WASHINGTON. Thank you. Mr. Chairman, and members of the committee, I am pleased to join my colleague, Mr. Barber, in offering the COSCAA proposal for your consideration.

Also, I am pleased to have this opportunity to tell you how this proposal complements our efforts in rural economic development in Oklahoma.

Due to the changing national and international economic conditions, and the decline in Oklahoma's major business sectors of energy and agriculture, we have embarked on a significant program of economic diversification and improvement.

Our strategy has been developed through the hard work and innovative thinking of a team of Oklahomans representing all segments of the public and private sectors.

The cooperative public-private partnership for economic development in Oklahoma is called Oklahoma Futures, which is a central economic development policy-planning board responsible for the direction of the 5-year strategic economic development plan.

Under the Oklahoma Economic Development Act of 1987, Oklahoma Futures gives direction to this plan through the Department of Commerce.

In creating the Department of Commerce 2 years ago, we combined two major agencies with program responsibility for the rural development activities of human and physical resource enhancement, as well as business assistance and business financing.

The department implements 13 goals and 20 strategies of the 5-year strategic economic development plan, as formulated by 18 taskforces comprised of over 650 Oklahomans from every walk of life.

Our Oklahoma partnership has the diversity and the flexibility to gain maximum benefit from the Federal resources made available for rural development. We have an existing network in place to provide rural economic development assistance whether it takes the form of financing, education and training, marketing assistance, or the improvement of human and physical infrastructure.

Rural Oklahoma is an essential segment of our State. Of the 77 counties in Oklahoma, only 14 are included in the metropolitan statistical area. Oklahoma also exhibits great diversity between rural regions, from the large wheat farming and natural resource-based industries of the west, to the more diverse activities of the east, such as tourism and the poultry industry. This diversity must be considered when devising an approach to rural economic development.

The COSCAA proposal before you strengthens and supports our leadership role by using an already-existing network of public and private entities that would give maximum input to those closest to particular issues or problems. By working with these existing organizations, we are able to combine various resources to take advantage of their capacity and flexibility to meet the diverse needs of rural Oklahomans.

In connection with these efforts, we have one of the most active rural enterprise teams in the Nation, bringing together State, local, and Federal rural development agencies.

The composition of our team reflects the COSCAA proposal for establishing a real partnership among Federal, State, regional, and local development interests, and would help prepare us to devise an investment strategy for rural Oklahoma that identifies and prioritizes local and regional needs.

The Department of Commerce works hand in hand, on a continuous basis, with the Cooperative Extension Service, our State chamber of commerce and its local counterparts, utility companies, rural electric cooperatives, and the Oklahoma Municipal League. The COSCAA proposal, if enacted, would allow us to add to the resource base of these agencies and organizations to promote rural development consistent with proven plans.

Given the allocation to each State, as addressed by COSCAA, it is vital that the State be allowed to enhance rural development through an existing network such as we have done, rather than creating new, competing organizations.

We are in agreement that the funding under this proposed act should include a match provision for the leveraging of private, or other Federal dollars into particular rural development projects.

The specific activities identified in the COSCAA proposal, dealing with business assistance, infrastructure development, and economic development capacity-building, are the subjects of specific strategies within the 5-year development plan.

We are currently actively pursuing these strategies through our Oklahoma network of agencies and organizations. As in many other States, we have found that existing resources to accomplish these strategies are thinly spread. Many worthwhile projects currently lack funding as a result, but could be successful if the funding level suggested for the proposal were put in place.

In developing the proposal, COSCAA has limited expenditures to $300 million to conform to existing funds contained in the congressional budget resolution for 1990.

While we believe that additional funds beyond this amount are needed to fully address the problems of rural America, we acknowledge the limits of the Federal budget at this time. As such, we suggest two approaches to more dollars.

First, we suggest, as indicated earlier, that each project contain a match so that the Federal dollars are leveraging private- and public-sector dollars.

Second, we propose that Congress form a bipartisan commission to develop a concrete proposal on how existing Federal rural development resources and programs can be consolidated and merged into the proposed act.

In conclusion, we ask that rural development legislation at the national level recognize the broad range of programs offered by the States, and complement these programmatic efforts. The Federal Government should work with us and not bypass us. We share a common objective—the development of our rural communities.

We ask the Federal Government to join Virginia, and Oklahoma, and other States, as coinvestors for the development of rural America. Thank you for your consideration of COSCAA's proposal and for your interest in these important issues. COSCAA members and staff, as well as Neal and myself, will be glad to provide any additional information.

[The prepared statement of Mr. Barber and Mr. Washington appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Washington. I appreciate that. As has been pointed out—and you stated in the testimony—COSCAA feels that the $300 million is not adequate. How much does COSCAA feel is adequate?

Mr. BARBER. I am not sure that we would be willing to take a guess at the total amount of dollars that would be necessary to meet all of the rural needs. I think the question is more one of, What are we able to afford?

Mr. ENGLISH. Well, I guess the question comes down to whether you are going to do any good. That has to factor in here some place. If we can take $300 million, and we scatter that out, we take every town, say—pick an arbitrary number—less than 20,000 population, and everybody gets so much per person.

Is that going to do any good for rural development?

Mr. BARBER. That is exactly some of the reasons for our proposal. We need to combine Federal resources with other resources that are working in rural America today.

Mr. ENGLISH. Yes, but at some point we have to figure out what it is going to take for us to do this job, and I assume that since you all made that point in your testimony, you had given some thought to what is going to be necessary, particularly given the vantage point of your organization throughout the country and through the States.

Mr. BARBER. I will just give you one example. In Virginia, the water needs that we have in Virginia represent $2 billion alone. We do not have the resources to meet those water needs in our rural areas. So we have to make choices of where we are going to spend our dollars to have the greatest economic impact, and oftentimes, that leads us to bypassing some very worthwhile projects, to invest in other projects that will have a greater economic benefit.

Mr. ENGLISH. I think that makes sense. I think that is right.

Mr. WASHINGTON. Mr. Chairman, I would like to also address that. The department did a study in 1985, and it said for the physical infrastructure needs in Oklahoma, from 1985 to the year 2000, we need over $24 billion to satisfy those needs. So, you asked how much, and obviously the demand is greater than what is going to be put out by the Congress.

Mr. ENGLISH. The other point, Mr. Washington, is that you stated in your testimony that you support the matching funds, and that the States would be willing to match whatever the Federal Government comes up with.

But if you take a State like Oklahoma, given the economic difficulties that we have right now, how much does our State have available to match a rural development project?

Mr. WASHINGTON. Well, I said the private sector, and other Federal funds, and there is all methods of matching, whether you take an in-kind—the State, right now, I would say, if we had to go to the legislature and ask for the money it would be tough. But I think there are other resources that, if targeted with these dollars, that are doing other things now, could provide that match.

Mr. ENGLISH. So you are talking about taking Federal funds from one point and delivering it over into something else?

Mr. WASHINGTON. I am saying targeting those Federal funds. If Federal funds are being used under the community development block grant, for example, in a particular area, and——

Mr. ENGLISH. Where would the matching funds come from?

Mr. WASHINGTON. Those could be used as——

Mr. ENGLISH. You want to take the Federal funds that the State of Oklahoma has, and use those to match other Federal funds. Is that right?

Mr. WASHINGTON. If we want to call them—I do not know if the term "match" is the most appropriate, or perhaps a better term would be "leverage," to make sure that other dollars went for that particular activity.

Mr. ENGLISH. But that is taking Federal funds, on one hand, that the State receives and use that to match something else from the Federal Government, isn't it?

Mr. WASHINGTON. Only if those funds were not going to be used for that same effort. The State very often gets funds that they have the flexibility to do a variety of things with and——

Mr. ENGLISH. Well, I guess, it gives the impression that the State is going to come up with something.

Mr. WASHINGTON. I would say yes, that——

Mr. ENGLISH. Don't you think the State ought to make a contribution?

Mr. WASHINGTON. I would think so.

Mr. ENGLISH. How much is the State of Oklahoma prepared to contribute to this?

Mr. WASHINGTON. I cannot say.

Mr. ENGLISH. Do you know of any?

Mr. WASHINGTON. I sure do not.

Mr. ENGLISH. So if we get into a matching situation, you get a State like Oklahoma that is having a very difficult time—and I suppose if you get into a needs-type of test, one of the most needy. But the State doesn't have anything to match. Therefore, Oklahoma is precluded from getting any benefit, right?

Mr. WASHINGTON. Right.

Mr. ENGLISH. So a match works to the detriment of those that are in need, isn't that true?

Mr. WASHINGTON. A true match, in the way you have describe it, and going to the Oklahoma legislature and asking for these dollars—yes.

Mr. ENGLISH. I think you are right there. Mr. Nagle.

Mr. NAGLE. I really enjoyed your statement, frankly, and I particularly like your caveats you have got in terms of if we try to do something, on pages 4 and 5 about the need for consolidation and need to eliminate duplication.

But let me pick up on something you did not address. And I do not mean this critically, because perhaps we did not ask you to. But you say that, "major resources should be available to assist rural areas in business development, infrastructure, and human-resource development, as well as in the building of capacity among local development organizations."

I agree with all of that, but I want to focus on the "business development," because in Iowa, we have launched some very, very aggressive efforts at attracting industry, and helping industry get started.

We gave, for example, $100,000 in State money to a chicken-processing plant. The rate of pay at the chicken-processing plant is less than $4 an hour. No employee is allowed to work more than 30 hours a week. The turnover rate is 200 percent. Employees work in 40-degree weather, sometimes as low as 30 degrees because the place is kept refrigerated.

We, now, in Iowa, have done a marvelous job of giving money to people to create $5 an hour jobs. We have given heavy doses, and in terms of millions of dollars to the meat processing plants, IBP.

It seems to me that within the caveat of business development, that we have to develop some kind of a standard as to what constitutes a good job, a good opportunity. We cannot convince Iowa kids to stay, go work at a chicken-plucking plant for $3.35 an hour.

Does your group address that question in terms of the quality of the jobs we are trying to create? I mean, right now, it looks to me like what we are doing is making rural America the competitor to Singapore for low wages and inhumane working conditions.

Mr. **Barber**. I think that at least in Virginia, a lot of those decisions as to what is a "good job" is difficult to make at a statewide level, and oftentimes we work—and that is one of the reasons why we have very active local development organizations, and promote those—is so that they can make those kind of jobs.

Where do they do their recruitment? What kind of business do they seek? What kind of home-grown opportunities do they foster? A $5-an-hour job in southwest Virginia, where the employment rate is well over double-digit, may be very good, whereas up around Winchester, which is another portion, that may be less than the standard——

Mr. **Nagle**. Pardon me, and certainly, I do not mean to focus on you in any way. Do you have children?

Mr. **Barber**. Yes, sir.

Mr. **Nagle**. Would you encourage your child to stay in southwest Virginia for a $5-an-hour job?

Mr. **Barber**. No. I would not. But if they choose to stay there, I would prefer them to be employed, rather than unemployed.

Mr. **Nagle**. Well, that standard, though, seems to say—I mean, why don't we put a caveat in, if we are going to talk about rural development—and you understand, I am trying to be friendly here—but why don't we develop some standards as to what constitutes a good job, the kind of jobs we want to create? Mr. Washington, Mr. Barber, do you want to comment?

Mr. **Washington**. I would not disagree, as far as setting a standard, but I believe, for example, in—he talked about southwest Virginia—that in southeast Oklahoma—you mentioned chicken-plucking activities. Recently, there has been some poultry development, and those people are very happy to have those kind of jobs. There is not a migration from southeast Oklahoma. What is a good job in Oklahoma right now is a job.

Mr. **Nagle**. Let me take the experience of my State. We had that problem. We have created jobs. We still cannot keep our good kids, our talented kids in our own State. They move, as the gentleman from Oklahoma who testified before you said, to Los Angeles, or to Atlanta, and create a massive population concentration problem there. What is wrong with targeting the creation of good jobs in these rural communities, rather than just any job?

Mr. **Barber**. I agree, wholeheartedly, that it would be much better if we could attract the higher-paying, more professional jobs in our rural areas.

Mr. **Nagle**. Then I would like to suggest that maybe one of the things your organization could address for us, if you choose to do so—is when we talk about business opportunities, when we talk about business development, can we commence to begin to examine what, exactly, that means, with a goal toward establishing the best possible jobs for the area? I mean, that would be an area I think that an organization like your own, with the expertise that you have, with the caliber of the statement you have presented to us, would be—I would be very interested in hearing from.

Mr. **Barber**. In my testimony, I believe that you will find an effort that we undertook, which was the Communities For Opportunity Program, and as a part of that effort was what we call our "target industry" studies that we are currently conducting in four rural areas of Virginia, and we finished up last year in southwest Virginia. But basically, that was to do exactly what you just said—is to identify those targets of opportunities in terms of business development, that would be most beneficial to those areas.

Mr. **Nagle**. I would be interested in receiving the results of those studies. If the committee could receive them.

Mr. **Barber**. I would be glad to give you a copy of the attachment to my prepared statement about southwest Virginia that was done last year.

Mr. **Nagle**. Thank you very much.

Mr. **English**. Mr. Harris.

Mr. **Harris**. Thank you, Mr. Chairman. I might point out to my friend from Iowa, that jobs that may not be good enough for them, to sénd them on down to some of my counties with 15-percent unemployment. We would be happy to see them.

You know, this problem that we have—and it really impacts on my district as I have a large district in Alabama, and a lot of it rural—is that we find out from going around, that we do not even have a decent water supply, and with the dry weather in the last 2 or 3 years, we have had to call the National Guard, I think the last 2 summers, to haul water in for certain communities.

The infrastructure, our highways, and health care. It is hard to get people too interested, whether the job pays $4 or $10 an hour, if you do not have adequate health care available. So it all fits in, and we have to develop a comprehensive approach. I know in Lowndes County, in my district, we have a nice new plant there, but most of the people that work there are from other parts of the State because the local people do not have the training to operate a very high-tech operation.

And it is very frustrating to them to see all these nice jobs, but filled by people from outside their county. So, this is, I guess, one of the most "burning issues" in our State because of the problems that we have—and we are seeing that, in a lot of ways, progress has just passed rural Alabama by. And we have got all these problems in trying to work with some type of consensus, to try to help do something about it, and of course we all realize that dollars are short, as they are in my home, probably in your home, too, but certainly at the Federal level.

This is a real challenge for us to accept, and to try to work to help the quality of life in our rural areas. I notice we have a phenomenon, as Mr. Nagle talked of, where a lot of our young people are leaving, but a lot of the people that are retiring are retiring back to these areas.

It is where they were born and raised, and they come back to spend their senior years there, and of course we would like to be able to keep them for their entire productive lives.

So we will certainly work with you, any way we can, to try to find answers to these problems. But I guess I was really surprised, as I moved about our area, to find out that just certain basic things that we just took for granted, we did not realize that a lot of people did not even have a decent water source.

And when you start talking about getting people to bring their business in, they look at that, and they look at education, or they look at infrastructure—they look at all of this—and it is a chicken or egg situation, which comes first.

I mean, we have got to get these other things in place, and if we are going to be able to attract the type jobs that we would like to see come into our areas. So, let's push ahead.

Mr. **Nagle** [acting chairman]. Would the gentleman yield.

Mr. **Harris**. Yes, sir.

Mr. **Nagle**. Let me add on that because I maybe misunderstood. I understand the problem when you do not have any jobs in an area, but the salary of the IBP president, the Iowa Beef Processing president, is $3.7 million. Now he thinks Iowa is a great State, but his workers are making $5 an hour. The abuses of plant safety are well-documented in OSHA; just outright abuses.

I would add a caveat that I think your organization is going to have to address, and that is, when we start talking about creating jobs—I understand the gentleman from Georgia's position——

Mr. **Harris**. Alabama.

Mr. **Nagle**. Alabama. I apologize to both you and Georgia. [Laughter.]

Mr. **Harris**. I am not sure which one, but I think I will reclaim my time on that one.

Mr. **Nagle**. Well, my State offered to trade me to Indiana for a Congressperson, so I appreciate the dilemma you have; but when we start talking about creating jobs, I think it would be far, far better if we were trying to create, in the distinguished gentleman's district, $8 to $10 an hour jobs rather than $4 an hour jobs, and putting the resources in there, and I think there are going to have to be some standards behind that, because when we give $2 million to one company so that their president can make $3.7 million, so that our kids can stay in the State and work for $5 an hour, I do not think that is what this country wants in terms of economic development.

Mr. HARRIS. I do not disagree with that. My only point was that when you do not have any jobs at all, with 15 percent you cannot—you would like to be more selective but we have to take what we can get. And of course the chicken business is very important down our way. We are soon to be second in the Nation in that, and I certainly do not want to downplay the importance of it.

I think you need to realize, too—my good friend from Iowa—that the people on the line represent just one part of it, but in an industry like that you have people growing the stuff that they use for the feed, and then you have got the people growing the broilers, and so there is a lot involved in it. And I will say back, that if you have any you would like to loan to us, we would be happy to take them. Thank you, Mr. Chairman.

Mr. NAGLE. I thank the gentleman, and I would recognize the gentlelady from Indiana.

[No response.]

Mr. NAGLE. Let me yield the gavel back to the chairman.

Mr. ENGLISH. Thank you. I appreciate your testimony, Mr. Barber, Mr. Washington, it is very helpful to us, and we will be looking forward to reviewing your study.

Our next witness is Dr. Kenneth Whittington who is the president-elect of the American Academy of Family Physicians, here, in Washington, DC. Dr. Whittington, we want to welcome you.

As I mentioned to our last witnesses, Dr. Whittington, if you would care to summarize your testimony, your complete written testimony will be made a part of the record.

STATEMENT OF KENNETH W. WHITTINGTON, M.D., PRESIDENT-ELECT, AMERICAN ACADEMY OF FAMILY PHYSICIANS

Dr. WHITTINGTON. Thank you, Mr. Chairman, members of the committee. My name is Kenneth Whittington. I am the president-elect of the American Academy of Family Physicians, a specialty organization of family physicians, nationwide, some 67,000 members strong.

On behalf of our members and our patients, it is a real pleasure to get to talk to you this morning on rural economic development, and where we see rural health care being the infrastructure for that development.

The economic well-being of our rural areas is critical to the academy. Some 30 percent of our doctors practice and live in rural areas. Some 50 percent of our graduating residents go to practice in areas of less than 25,000.

So we have an interest. We are very much aware that primary health care in these areas are the cornerstone of what is going to happen for the economic development in your areas.

If we are to keep the industry that happens to be in rural America, we have to have health care. If, indeed, we are going to attract new industry, we need to have the health care available.

In my home State of Oklahoma, a recent study out of Oklahoma State University shows that one rural physician will create 18 jobs in that community, and create some $350,000 worth of salary for those positions. Under the present situation, the way that reimbursement occurs, your constituents and my patients, really, the need for that hospital's existence is not because of need, but, indeed, for economic stability.

Present Medicare reimbursement systems cause a large disadvantage to rural hospitals. Rural hospitals get paid 40 percent less, on the average, than urban hospitals for the very same procedure. This is just not fair, but particularly in areas where the cost actually is higher in rural America than it is in urban America.

Compound this with the fact that indeed we do have a larger disproportionate share of the elderly in rural America. Also, a larger disproportionate share of the 37 million Americans that are uninsured live in rural America.

When you take all of these items on the background, that gives us a pretty good idea of why we have 600 hospitals in rural America that are facing bankruptcy. Mr. Chairman, as you know, many efforts are going through this present Congress to try to rectify this problem.

My urging to you, as members of this committee, are that we have a real crisis. I do not think, and the academy does not think, that we have several years to phase in some equalization. I urge this Congress, this year, to equalize the reimbursement to rural hospitals that their counterparts in the urban areas get.

This would buy the Congress a little time, indeed, to look at long-range planning, and we, at the academy, would be willing to sit down and help you any way we could at that.

An additional short-term help for our rural hospitals may well be a cash-basis reimbursement. This could be a short-term thing but it would at least give us a chance, once again, for buying some time.

The viabilities of hospitals depend upon the physicians that you have in those rural areas in the rural hospitals. By the same token, if we are going to get rural physicians to rural America, we have to have hospitals for them to practice in. So it is a hand-in-glove type situation, I believe, and much the same problems that exist with rural hospitals exist with family physicians and in the rural settings. That is, that, indeed, the same procedure done by a family physician, or in a rural area, will be paid some 50 to 70 percent less than by some other specialist.

I contend to you, sir, that that is just not equitable financing. Our patients, your colleagues, and your constituents pay exactly the same income-tax rate, the same Social Security rate, and the same part B Medicare payment.

Why should they be penalized and be reimbursed at a lesser level? Recently, Congress established a Physicians Payment Review Commission, and asked it to look at reforming Medicare reimbursement. That committee has met. It has made its report back to Congress.

The central aspect of that report is, indeed, what is called RBRVS—Resource-Based Relative Value Scale. The academy backs this report in general. Obviously we have some concerns with some of the areas, and I think some of those areas are where we are concerned about the rural conditions.

In fact I would say to you, parenthetically, that not only should we be making equal payment for our rural hospitals and physicians—it would seem to me there ought to be an incentive out there for our young people to go to these areas.

The AFP believes that cost-based reimbursement reform offers the greatest chance that we have had, in many years, of reforming the reimbursement system. We urge Congress to pass that this year. The PPRC's recommendations we stand behind.

Mr. Chairman, that summarizes pretty much what I had to say, and I want to say thank you for letting us testify here, and I would be willing to answer questions, if I might.

[The prepared statement of Dr. Whittington appears at the conclusion of the hearing.]

Mr. ENGLISH. Dr. Whittington, I think most members of this subcommittee fully understand what you are talking about as far as rural health care is concerned. We have all had rural hospital problems. I do not suppose there is a single rural district in this country that is not being faced with that difficulty.

But it seems to go beyond just the simple reimbursement of Medicare. There is the percentage of elderly population in rural communities as opposed to urban communities, and how that is offset with health insurance as opposed to being reimbursed from Medicare. A lot of it I think comes down to the question with regard to health care, where we are finding more of our rural patients wanting to go to the large cities' hospitals. I suppose they feel that the care is more sophisticated, maybe they have got more modern gadgets in the big city as opposed to rural communities.

How do we address this aspect of the problem? What can the physicians do? And I know that many of our younger physicians coming out of medical school, they want to go live in the major cities and specialize as opposed to being family physicians in rural areas. How do we turn that around?

Dr. WHITTINGTON. Well, I think it is a multifocal question there, sir. One, technology who no one is going to be opposed to, but has really become a source of a real problem for us in health care, not that we want to go back to the "dark ages." But there, indeed, are many ways that a family physician in rural America can take care, very adequately, of those people.

Some of this is what they read in the newspapers, magazines, here, on television, that they have to go to the tertiary care centers to get that kind of care, simply is not true.

I think some of the other things that we can do with our PRO's is try to get better understanding from them of our rural problems. Many times, those PRO decisions and rulings come down on rural physicians much harder, simply because they do not understand our problems there. We might not have nursing homes. We may not have other areas of being able to take care of a patient, other than in a hospital, and then they say that patient should not be hospitalized.

So I think as far as the technology we have got some problems. My opinion is that when we recruit students, we need to be recruiting more from rural America to go to medical school.

They are the ones that we stand a larger chance of getting back into the rural areas. We take metropolitan students. The chances of them going to rural America are not very good. We must increase what we are reimbursing our physicians and our patients in these rural areas, which will also give some incentive for them to go.

I think it was said earlier—and I would agree, wholeheartedly—that we have got to show the benefits, the absolute benefits of the type of living that we have in rural America versus a multitude of problems of raising kids in an inner city.

It is just staggering to me that someone would not understand that very clearly.

Mr. English. With regard to medical schools, is there any kind of emphasis placed by any of the States, that you are aware of, on trying to encourage young people from rural areas to go to medical schools, with the idea they will return home as opposed to staying in urban areas?

Dr. Whittington. Yes, sir, there are some, and some areas do much better than others. All areas, I can tell you, if you asked them that question, the answer would be yes to you, because they know what the answer should be.

But there is a very good study from Pennsylvania where they did make an effort to take more rural students, and they turned out, indeed, more family physicians than the average across the Nation. More of those also went back to rural areas.

But in Oklahoma, for instance, we do have rural preceptorship programs. That comes in our third and fourth years. The academy's feeling is that we are not getting to the students early enough. Once they get into the medical school, many, many times, the surgeons, the internists, the cardiologists, et cetera, say, you know, you do not need to waste your time doing family practice, what you want to be is a surgeon, or use your talents.

And we have got to convince these young people that we have something to offer them in rural America.

Mr. English. Do any of the States place that kind of emphasis within their medical schools? I think that would be something for the individual States to organize.

Dr. Whittington. Individual States should be doing that and we keep pushing it, particularly in Oklahoma, of trying to increase the number of physicians we have going to rural areas, but it is a difficult problem.

Mr. English. Mr. Harris.

Mr. Harris. Thank you, Mr. Chairman. Of course, Dr. Whittington, I touched on it 1 minute ago, when we were talking with the witness before you about the importance of health care in rural Alabama, rural America, and we have a rural health care caucus, which Mr. English, and I guess most of the folks here belong to, and we have a package of bills to help deal with some of these problems, and hopefully we are going to see some of them moved on. Of course the disparity between pay in the rural and urban hospitals is certainly a part of it, and also additional financial incentives for the physicians and health-care professionals to locate in rural areas by certain tax advantages, or as far as paying loans back, and other things, trying to encourage them.

I know the University of Alabama has a family practice program where a physician that is involved in the program has to agree to practice so many years in a rural part of the State, and that has helped a lot, but we still have areas where we do not have adequate professionals available.

In some of the communities it is almost like going after an industry just to get a doctor to locate in their particular community.

So, this is just a part of the overall problem, and you are preaching to the choir with me on this. It is something that certainly I am not proud of, but our State leads the Nation in the closing of rural hospitals. So I just appreciate your comments, and look forward to working with you as we try to iron out some of these problems. Thank you, Mr. Chairman.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman. I have an opening statement that I would like to have included as a part of the record, with unanimous consent.

Mr. ENGLISH. Without objection, it will be placed in the record before our first witness.

Mr. ESPY. Thank you. I am sorry, Mr. Chairman. I arrived late due to just getting back from Mississippi, but, again, I want to applaud your efforts in having these hearings. This is the third such hearing, and it is an area that is of vital interest, and my district is in bad shape. I imagine everyone else could echo the same sentiment, where we are having rural hospitals closing almost by the month.

And the disparity between the Medicare reimbursement is certainly a part of it. In fact we have documented that a hospital in my district, in a community called Clarksdale, MS, which is about an hour and a half drive from Jackson—which is, a truly urban area—that in order for Clarksdale to qualify for Medicare reimbursement, they have to have a high incidence of indigent patients to qualify for a lower Medicare reimbursement than a hospital an hour and a half away in Jackson.

Last year, that accounted for a dropoff of about $700,000, which is exactly the amount of money they needed to build a new wing on that hospital. So it is a problem.

I want to compliment you on your testimony, and would like to ask you, that in addition to the National Health Service Corps, which is certainly something the Federal Government can do, what can rural communities do themselves to entice doctors to return? There are some rural banks who would offer low interest home loans to doctors willing to relocate. Among the other range or menu of incentives, what have you heard others do that work?

Dr. WHITTINGTON. Yes, sir. Congressman, you are feeling the same pains and pangs that we have. I think two or three things must be done. One, I would be the first to say that every community probably does not need a physician.

In other words, there may be an area of four or five nearby communities that have to kind of go together, to be able to afford a hospital that would serve that area. I think in Oklahoma, we used to talk about getting banks to give a little lower loans, and at home, now, you do not have many banks left. They have bellied up.

But those incentives need to be put there. I think the one thing that maybe we have done wrong in rural areas, is it is going to be very difficult to recruit one person to come to that area to be a physician.

I think what you have to do is get a group of two or three, so that they, indeed—they and their family—can get away for continuing medical education, just relaxation and getting away from the 24-hour clock.

So I think that we need to look at the possibilities of groups of two and three, and putting together a package of help, because the loans that medical students now are building up in medical school are staggering, and that is one of our problems that we are faced with.

They are finishing medical school with staggering debt, and they are saying, How am I going to pay this back? And if we, in rural America, have not some way to buy them a little time to work on paying that back, we are not going to get them.

Mr. ESPY. So you are saying, then, that communities should band together and perhaps offer a repayment plan?

Dr. WHITTINGTON. Or at least some kind of help. A stipend to help them start, maybe, the first 3 years, or something like that.

Mr. ESPY. Thank you, Mr. Chairman.

Mr. ENGLISH. Ms. Long.

Ms. LONG. Thank you, Mr. Chairman. Coming from a rural area, I have a very strong appreciation for the problems that rural hospitals face, and the problems of rural health care, and I know that the needs of rural communities vary considerably as you go from one rural community to another.

But I think we are going to have to try to determine what the role of the rural hospital is. I realize that is very broad, for me to even suggest that we should do that, but I think in order to cost-effectively and adequately provide health care, we are going to have to distinguish between what an urban hospital can do versus what rural hospitals can do.

I would like you to share any thoughts that you have on what the role of the rural hospital is, in sort of the typical rural community in our country.

Dr. WHITTINGTON. Surely. Congresswoman, it seems to me that a rural hospital, when we look at it from the medical side, we would say, gosh, it ought to offer the same thing as a hospital anywhere—good medical care. I agree with that, wholeheartedly. However, I think the area in rural America where we do not have—we may not have nursing homes to take care of marginal people that should or should not be in the hospital, where, in an urban area, there are lots of ways to take care of that patient.

Coming back to where our problem is in Oklahoma with a PRO investigation. Then they may see that marginal patient being in a rural hospital, and they "ding" that doctor and say, "You know, you've got an inappropriate admission here." And three of those, you have a $10,000 fine, and you do not see Medicare patients anymore.

Now we have got to change the thought process of what constitutes health care in our areas. We need, I think, and maybe, indeed, some of our rural hospitals may not need 50 beds of acute care; maybe they need 20 beds of acute care and 30 beds of extended care for afterwards, or prior to, like a nursing home situation.

Things like this we have to do. We have got to redefine, really, what is the role of a hospital in rural America, because I do not see it exactly the same as that that we have in urban areas.

I would like to have a real specific answer for you.

Ms. LONG. I would like you to have one, too. But any information that you have, that you could provide to me or the committee, down the road, would be very much appreciated by me.

Dr. WHITTINGTON. Fine. Thank you very much.

Mr. ENGLISH. Thank you very much. I appreciate your testimony, Dr. Whittington. I think that we have certainly touched on what I think are some essential problems. Some people I think look at this as simply being a matter of reimbursement for hospitals, and once that is done, well, that will get it out of the way. I think it is much more complicated than that, because it has to be an integral part of any approach that we make as far as rural development is concerned, especially if a community will have an opportunity to grow and be viable. You have got to have good health care, and that is what it comes down to. So we will be looking forward to working with your organization.

Dr. WHITTINGTON. Thank you very much.

Mr. ENGLISH. Thank you. Our next witness this morning is Mr. Michael Dunn who is the legislative director of the National Farmers Union here, in Washington. Mike, we want to welcome you this morning, and again tell you that if you would care to summarize your testimony, without objection, that complete testimony will be made a part of the record.

STATEMENT OF MICHAEL V. DUNN, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. DUNN. Thank you, Mr. Chairman, and thank you on behalf of National Farmers Union for inviting us to testify today. National Farmers Union represents some 300,000 family-sized farm operations, and has a long history of supporting rural development types of activities.

Perhaps the best barometer of the State, or the need for rural development is what has happened in rural areas as far as the poverty level is concerned. In 1959, when poverty levels were first beginning to be looked at by the Federal Government, we found that in rural farm areas, 45 percent of the people were below poverty guidelines.

We did a great deal of work during the 1960's, and by 1973, that figure was down to 13.4 percent on farms that were in rural poverty.

But then we had a decade of backsliding. By 1983, we were up to 23.7 percent, and now, the estimate is 25 percent of those that live on farms fall below the poverty guidelines.

And for those hired hands on the farm it is even worse. Thirty-one percent. For the rural nonfarm area, it is 19 percent. This compares with a 13.4 percent of the Nation as a whole.

Certainly, if the rural poverty level is a guideline, rural development is an activity that is needed. Mr. Chairman, I understand that you have a full plate in front of you with your committee. You have got the Federal crop insurance report coming out soon, you have got to reauthorize the Commodity Trade Commission, and it is going to take a great deal of your time.

But I would ask you, that if there is an opportunity to do a rural development bill this year, to please take that opportunity. There is money authorized for outlays and authorization in the budget, and if we wait until the 1990 farm bill, I am afraid rural development will be lost in the shuffle.

So I would implore you, Mr. Chairman, to take a little more of your busy time to try to push through for a bill this year.

Farmers Union believes that rural development should be comprehensive in nature, and not just merely the bricks and mortars, but the entire gamut of what you are looking at—education, health care, transportation, infrastructure, of course.

I would imagine the committee is beginning to feel a little bit like hearing the old Hindu proverb of the blind man describing an elephant, as you have your parade of witnesses come up here to explain to you what rural development is.

The one that has ahold of the tail says, "Well, it's like a rope," and the one that has ahold of the leg says, "Well, it's like a tree trunk," and the one laying against the side says, "It's like a great wall." And the one that's got ahold of the ear says, "It's like a great leaf," and of course the one that has got the trunk says, "It's like a big hose."

Well, they are all right in describing the elephant in their particular area, just like your parade of witnesses are going to be right in describing rural development as they see it. It is your job to step back and encompass the entire beast, and come up with a program that is good for the whole elephant.

I see we have got nothing but Democrats here; maybe I should have changed the beast.

Mr. Chairman, we need to have not only your committee zero in on rural development, but all the other committees that have the appropriate jurisdictions as well, and I understand that you are going to develop a report, and sit down with your colleagues and meet with them, and I commend you on that. I think it is also important that the administration is taking steps, and President Bush, and Secretary Yeutter have announced that they have developed a taskforce to make an analysis of the entire Federal Government and how many dollars are being spent on rural development.

At one time, it was estimated that there was $140 billion, annually, being spent on what could be loosely defined as "rural development activities." Mr. Chairman, I do not believe we are going to see a whole lot more money being allocated for rural development. I do not think our budget is going to allow us to do that.

So we have to be smarter in what we are doing. We have to have that Federal, that State and that local commitment to work together, to get the "biggest bang for the bucks," to establish and develop that rural development activities.

I would ask you, as you begin crafting legislation, to be flexible, and especially in that local approach to rural development. To target what grants we might have to low-income communities, and to allow for local unique efforts at rural development. Too often, we hear people say, "This is rural development," and they try to micromanage and say, "This is what you have to do in your community to be successful."

I imagine each and every one of you has a unique community in your district that is being successful in spite of the odds, in spite of what the experts are saying.

So you have to develop some type of latitude to allow whoever administers the program to be pragmatic, to ensure that that unique effort is not lost. For instance, in the Farmers Home programs.

In community facilities we could offer a grant to communities to maybe lower the cost of a water facility from $40 a month down to $35 a month. That is going to help the community as a whole. However, there are some individuals in that community that could afford the $40 a month.

There are also other individuals in that community, such as a the widow that is on a fixed income, that cannot even afford $20 a month, plus provide the latitude to target those grants to the particular individuals that need it the most. So that we can still get the amenities to that community that will work.

Let me talk a little bit about the Federal role, and what we think it ought to be, and certainly, the biggest Federal role is probably going to be in the area of monetary transfers.

I think we have seen what the past decade of scaling back Federal efforts in rural development activities have done. The communities that could afford the wherewithal, that could afford the amenities, got bigger. The communities that did not have the wherewithal to develop the communities began to suffer.

This Nation was developed on the premise that it is one Nation, indivisible, and for us to say, yes, the area that may be in the Silicon Valley, that has property taxes and can provide education, and health-care facilities ought to be allowed to do it, but that poor region of the Appalachia, that does not have that wherewithal, cannot afford and will not be able to give those opportunities to their citizens. That simply is not the American way.

Areas that need assistance, need outside help, they simply do not have the wherewithal to help themselves. Poor States, poor counties, poor communities need to buy-in in a rural development effort if you are going to be successful.

Why not think of new innovative ways, allowing those communities to provide some type of "sweat" equity? If you have got the citizens of that community that are willing to put forth the effort to clean up the community, to establish a people's park. To do redevelopment activities and to provide the manpower. Allow those communities to do that sweat equity as the local match. Let's don't say we have to have "hard cash" because those communities that need development the most simply do not have it.

I have no quarrel with those that feel that perhaps we need to develop some type of tax incentive; that is, Federal tax income abatement for people that work in those rural areas that are designated for rural development. However, I do have concerns for those communities and those States that have allowed for communities to engage in bidding wars and local property tax abatement in order to attract industry.

As Congressman Nagle had pointed out, very eloquently—many times we have communities out there giving away the store in order to get jobs that may not be the types of jobs the community needs in the first place.

If in fact a business comes in with a property-tax abatement, and still needs sewer capacity, water capacity, police and fire protection, paving to get to that industry, the people that are in that community already are the ones that are going to suffer by an increased property tax.

We simply should not allow those communities to mortgage the future of those individuals, in order to sometimes get very, very short-term gains, as industries come in, and leave as soon as the tax abatement period runs out. I would be remiss, Mr. Chairman, if I did not talk about the area that we, in Farmers Union, probably think of as the quickest area to turn around communities and to stabilize rural areas, and that is to restore profitability to agriculture.

And as you address the 1990 farm bill, we would implore you to ensure that producers get a decent price for their commodities. The dollar amount that farmers and ranchers spend in local communities, in many cases, are the backbone of that community, and is the quickest way to revitalize that community.

Also, as you are looking at the 1990 farm bill, look at the research and educational titles of that bill to ensure that future research is taking place that will develop new products, new ways of processing, that will add value to the communities that are being produced in those areas.

Again, there are certain concepts that are being bantered about, now, for a 1990 farm bill. A decoupling proposal, a triple-base proposal which is decoupling, a following the GATT agreement proposals, that would in fact result in a lowering of property values in the agricultural community.

We have already had as much as 60-percent devaluation of agricultural values in some communities. If we go through a decoupling, we know that there will be additional devaluation of those agricultural areas, and, again, we are talking about the property tax base that rural counties, rural townships, and rural communities are using for their seed money for rural development.

Mr. Chairman, I thank you for the opportunity to allow us to testify and will answer any questions that you might have.

[The prepared statement of Mr. Dunn appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Dunn. I would simply like to say, at this point, that if this chairman, and I think if most members of this subcommittee, felt confident that we knew all the answers for rural development, that we would be having hearings on a bill right now. We would not be holding these hearings, taking all of these policy recommendations.

I think that the one point that has been made is that "rural development" is a very comprehensive term. It includes a lot of things, some within the jurisdiction of this subcommittee, some beyond. I would agree with you, wholeheartedly, certainly the more traditional approach has been with regard to crop prices because that depends on the overall economy of that community.

But we have seen in the past 8 years, that when crop prices are low, and there is no job in town, farmers are forced off the land, their young people are forced to move, and there is no way that the family farm can continue.

So I think that, without question, we have got to do something that, during periods of low-market prices, will give farmers an opportunity to stay on the farm. More importantly, we need to give young people an opportunity to stay in rural communities, and be in a position to take over the family farm when their parents retire. I think that is a key factor.

I would also say that it is our hope that any money is not only just provided in the budget, but is appropriated at some point. We are a long way from seeing money appropriated, and we have seen, as the process works, that what we may have in mind for an appropriation for one area of difficulty may turn out to get appropriated somewhere else, and under the same name.

So, again, I think anything with the name "rural development" on it, that money can go a lot of different places, and a lot of different targets. I would simply say, as we heard earlier, that the $300 million may not even get us as far as being seed money in a rural development program.

What I think is going to have the real impact as far as rural development is concerned is probably redirecting, retargeting existing programs, trying to pull these programs together so that they complement each other, rather than having a hodgepodge of different approaches, that often as not is either duplication or many times—most times, probably—people in rural communities do not even know about. So, I think that as soon as we can feel confident that we have those answers, and we have got a bill that we can put together that is going to take a big jump toward a comprehensive rural development effort, we will be ready to go.

My thinking is that if we can do it this year, that would be great. I would guess, though, if we are talking about that kind of comprehensive effort, I would guess that we are going to be doing very, very well if we have that ready by late fall, and early winter, and you are only talking, probably then, a couple, 3 months before it is ready to go in the farm bill.

I think it does support agriculture; it complements agriculture. I think that the two approaches, the commodity programs as opposed to rural development, I think go hand-in-glove, and certainly we understand that better today, probably, than at any other time in our history.

But if we get to that point, and we feel that we have got the answers, and we have got the legislation in hand, I can assure you that we will have hearings the next day and we will start moving. Mr. Espy.

Mr. Espy. I wanted to associate myself with the chairman's remarks, and also, Mr. Dunn, I appreciate your testimony. We do have to fashion a bill that is very comprehensive, and as you noted, money is not in great supply here, and even less so next year, as we attempt to grapple with the entirety of the new farm bill.

But even when you draft a comprehensive bill, you have to make some stab at priorities. There are certain things that you want to emphasize, and you do have to number them. So I will just ask you if you would survey the members of the National Farmers Union. Now, other than the farm program, whether it is production controls or the traditional program that we have, if you just look at the other elements of rural development, what would you consider as the top one or two things that we ought to pay attention to when we fashion this comprehensive program?

Mr. DUNN. Mr. Espy, there is no problem with me coming up with an answer. Our board has prioritized, and I can tell you that health care is right up on the top. That this is one amenity that seems to be severely lacking in rural communities and there is a "crying need" for that type of a service.

Mr. ESPY. How about in the development of off-farm jobs? Do you have any proposals in that regard?

Mr. DUNN. Certainly, we are aware of the fact that there is a need for more off-farm jobs, and our ultimate hope would have been that a family could survive on the income that they make on a family-size farm, but you and I both know that is not a reality today. And so there is a need for those off-farm jobs. We believe that they should be the kind that are agriculturally related; that is, the processing, value-added to the commodities that are being developed, new commodities. So there needs to be a great deal of research for new commodities.

We cannot go into an era like we did with the ethanol industry, where the Federal Government put together a great deal of incentives, and we had a lot of people take their own personal resources and go out and get into the ethanol industry. We had a change of administration and we had the rug pulled out from under the support for that industry.

These new industries are going to need to be nurtured, they are going to have to be brought along, and they are going to need special care, to take care of them, to develop that industry. Many of us can remember back when the soybean was an infant industry and as we got people developed and working into that, it became one of the staples in the farm community.

Mr. ESPY. Thank you. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Espy. Mr. Dunn, we appreciate your testimony. Thank you very much. It has been very helpful to us.

Mr. DUNN. Thank you, Mr. English.

Mr. ENGLISH. We will recess, subject to the call of the Chair.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

COUNCIL FOR EDUCATIONAL DEVELOPMENT AND RESEARCH

Rural Economic Development

Hearing Statement

by

Dena G. Stoner
Executive Director
Council for Educational Development and Research

June 13, 1989
10:00 a.m.

SUBCOMMITTEE ON CONSERVATION, CREDIT,
AND RURAL DEVELOPMENT
HOUSE COMMITTEE ON AGRICULTURE

CEDaR / Suite 305 / 1201 - 16th Street, NW / Washington, D.C. 20036 / 202-223-1593

Good morning. My name is Dena G. Stoner. I'm executive director of the Council for Educational Development and Research, the association of regional educational laboratories. The laboratories are federally funded institutions created by Congress to research, develop, test, and disseminate innovative ideas in education.

There are nine laboratories across the nation, each serving a specific region. The reason these institutions are spread out across the country is that schools are not everywhere the same. They differ according to regional and local traditions and cultures, economic and social conditions, and geography. And they have different needs.

Each of the laboratories has a staff of experts ready to tap into a vast network of research resources in its quest to help local, state, and federal policymakers solve practical educational problems. If you want to test an idea "on-the-ground" before you make a policy, whether it be legislation or a new curriculum, to see if it works, the laboratories will take the risk of trial and error.

In other words, the regional educational laboratories are a resource Congress can use to avoid costly mistakes before big, expensive programs are put into place.

Education is just like other public services in that everybody has an opinion about how to improve it. The trouble is, some of the ideas that sound wonderful simply do not work.

For example, years ago we were sure that closing all little rural schools and consolidating them into big schools would not only provide a better education but would also be cheaper. Now, we are not so sure we didn't forfeit a lot of individual attention for students, autonomy for teachers, and educational involvement for parents when we began busing kids into some of those big school districts.

Or, if we know about something that does work, the laboratories can draw upon their 20 years of experience to determine how best to get educators to change their ways. Sometimes, figuring out how to get an educational innovation understood and practiced is a lot more challenging than developing it.

Education isn't alone in this. The same holds true in agriculture, health, and manufacturing. Each of these fields has developed mechanisms for getting good ideas accepted. The regional educational laboratories play this role in education.

Rural economic development is risky business. And the task is so tough that some failure is inevitable. Those of you who come from rural districts will appreciate something we have learned over the years about rural communities and their schools.

That is, you don't improve rural schools by walking an educational expert into the community and telling local citizens that their school has a problem. In fact, that's a good way to fail. The people in these communities believe that their schools are good and that small is better.

To be sure, the problems are there. As you know, U.S. students lag behind students in other industrialized nations in subjects that require higher level thinking skills. Science and mathematics have gotten the most press, but we're feeling our inadequacy in other fields, too.

Now obviously one doesn't open class by announcing that "Today we're going to teach you how to think!" It's not that simple. The development of "higher order thinking skills," to use the educational jargon, must be part of instruction in every subject, whether it's reading or geography. And, the process must start early, in the elementary grades.

But for teachers to teach students thinking skills requires a great deal of training. And rural schools with tight budgets don't have the money to send their teachers to inservice meetings, nevermind to pay substitutes to teach classes while regular teachers are away. Neither do they have the money to hire "experts" to work in the schools with teachers. The result is that the educational program in rural schools gets further and further behind.

When this occurs, it's difficult for rural areas to attract or develop businesses that require professional people. These people don't want to live in communities where their children must attend inferior schools. Rural economic development research indicates that one of the most, if not the most, important services that must be available as a condition for economic survival is a high-quality educational system.

My colleagues from the Mid-Continent Regional Educational Laboratory, the laboratory that serves the plains states of Colorado, Kansas, Missouri, Nebraska, North Dakota, South Dakota, and Wyoming, will discuss in a few minutes an idea for using schools to help revitalize rural communities.

I, however, want to show you a program where another laboratory, the North Central Regional Educational Laboratory, is testing and demonstrating the use of telecommunications to upgrade reading instruction in small rural schools in Wisconsin. The North Central Regional Educational Laboratory, by the way, serves, in addition to Wisconsin, the states of Illinois, Indiana, Iowa, Michigan, Minnesota, and Ohio.

The project uses a television program called "Storylords" to teach first through fourth graders reading and thinking skills. The program is based on fantasy. A student named Norbert becomes anointed as an "Assistant Storylord" to help save the planet, Mojuste, from Thorzuul. Thorzuul is the evil Storylord to wants to rule Mojuste by turning all the good citizens into stone statues.

The citizens, however, can escape Thorzuul's sculpture gallery by solving a problem. Using the principle that you really don't know a skill until you teach it to someone else, Norbert learns a skill from his teacher which is immediately needed to help the citizens of Mojuste beat the wicked Thorzuul and his sidekick, Milkbreath.

Students love this program. After they see the show, they get to practice their new reading skills on a set of computer programs that let them save the planet Mojuste, too.

But the "Storylords" series is just a game unless teachers back it up with their own instructional repertoire. And this is the hard part: Getting teachers to reinforce what the technology presents.

The people at North Central Regional Educational Laboratory linked up with fellow experts at the Wisconsin Educational Television Network and the Wisconsin Department of Public Instruction to test "Storylords" in some 20 rural schools. Funding for the project comes from the Congress under the Rural, Small School Initiative.

The program uses a complete range of telecommunications. Broadcast television transmits "Storylords" for schools to tape and use on VCR. Narrowcast television and radio helps train teachers. Computer networking and telephone conference calls let teachers share problems and curricular ideas both with their peers and with a reading expert who monitors and reinforces their activities.

The program is in its second year. Preliminary results indicate that reading scores probably will go up. First year results already show that teachers who are using the program change the way they teach.

In year three, "Storylords" will be refined and used in more rural schools in Wisconsin, as well as in schools in Iowa, Michigan, Minnesota, and Illinois.

And what have we learned so far about telecommunications in rural education?

First, you must have the equipment, teachers have to know how to use it, and when it breaks down, replacements must be immediately available. If you can't meet these conditions you might as well forget about elaborate communication programs. Teachers won't touch programs that are unreliable or that take extra time. They're already too pressed.

Second, teachers have to be trained in using the equipment. Many are afraid of it.

Third, there are administrators who want the hardware but are not willing to give their teachers support and time to learn how to change the way they teach. Any good program must have administrators and principals involved in it from the beginning.

The testing of "Storylords" is only one example of the many improvements the regional educational laboratories are helping make in rural, small schools. Successful change is not easy. It takes time. But the laboratories are proving that it can be done. We would like to help you further this kind of work in the nation's rural communities and schools.

Thank you.

STATEMENT OF GARY KENNEDY

MANAGER, PANHANDLE TELEPHONE COOPERATIVE

GUYMON, OKLAHOMA

ON BEHALF OF THE

NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

BEFORE THE

HOUSE SUBCOMMITTEE ON

CONSERVATION, CREDIT & RURAL DEVELOPMENT

AGRICULTURE COMMITTEE

JUNE 13, 1989

Mr. Chairman, distinguished members of the Committee, my name is Gary Kennedy and I am the Manager of the Panhandle Telephone Cooperative in Guymon, Oklahoma. In addition to Panhandle, today, I am also representing the National Telephone Cooperative Association. It is a pleasure meeting each of you and I appreciate the opportunity to appear before you.

Briefly, NTCA is a national trade association representing nearly 500 small telephone systems serving rural consumers in 41 states. Panhandle serves approximately 4,200 customers throughout the rural confines of western Oklahoma. Our subscriber density is only 1.6 per mile of telephone wire which is extremely low when compared to the telephone industry as a whole which averages over 50 customers per mile. As a further point of reference, the Bell companies serve about 130 customers per mile. Thus, you can understand the need and continued importance of rural oriented systems such as Panhandle.

The topic on our agenda this morning is rural development, which is of great importance, not only to NTCA members and their subscribers, but to all of rural America. Generally, it can be said that all NTCA members are already involved with rural development, as their primary lending source, the Rural Electrification Administration's (REA) Telephone Loan program is one of the country's first and finest examples of a successful rural development program. However, many NTCA members are beginning to look into additional forms of rural development as the local economy of their service area continues to falter. Meanwhile, the central focus of all NTCA members must and will always be to utilize all available resources in making affordable telephone service universally available to our rural customers. And, the quality of such service must always equal that which is available to urban residents. In seeking this goal, our efforts can and will spark rural development which helps to ensure America's rural sector remains a viable force in improving the country's overall economic health and that rural American's have the same access to jobs, education and health care that are available in our nation's urban communities.

Members of the Committee, many less familiar with the rural scene than you and I, have questioned the need for rural development legislation. They question the necessity for preserving rural life, citing the advantages of population clustering and federal budgetry constraints as arguments against rural development. In addition, they refer to census data which suggests our rural population is migrating to urban centers as positive proof the population is making a conscious choice to leave their rural communities. Parts of this argument may be true -- to a certain degree. However, the reality of the situation is that there are just as many disadvantages to population clustering as there are advantages; a fiscal response to this crisis is possible by the federal government; and this outmigration is mostly due to factors beyond the control of the rural residents. The majority of these individuals would prefer to remain in the rural environments they are familiar and happy with. And, it is the opinion of many Americans, that the historical rural policies of the United States virtually guarantee these citizens federal assistance to remain in their rural environments.

Perhaps the greatest contributing factor to the outmigration phenomenon is the lack of adequate employment and educational opportunities. As a result, our rural residents are forced to seek new opportunities, generally in urban centers, though often they do not exist. In typical domino fashion, in the haste to meet the needs of the new urban residents, inadequate policies are often developed and implemented which often only compound the problems from an overall perspective. It can be a tremendously costly process as millions in tax dollars are spent to service the urban centers and still additional millions are spent to prevent closure of the severely underutilized rural facilities.

Members of the Committee, I am convinced this cycle can be reversed, and with minimum difficulty, if only more national leaders displayed your sense of leadership on the issue and if the Administration were more willing to ensure existing and new development programs are utilized to their fullest extent. Indeed, during the Senate's recent rural development hearings, we heard repeatedly that many of the resources, programs and infrastructure essential to rural development currently exist. But, they are simply in need of administrative enhancement or slightly elevated federal funding.

Of course there are several aspects to rural development, each of which will likely be discussed during these hearings. However, not surprisingly, I would like to focus on the role that telecommunications can play in this development.

Now, as each of us are aware, distance is perhaps the greatest obstacle associated with rural life. Fortunately, this obstacle can be overcome with ever increasing effectiveness, through the use of modern telecommunications facilities and services. Telecommunications can mitigate the so-called penalty of distance in such a way as to ensure rural areas are able to compete with urban areas in previously unimaginable ways. This is especially so during this "information age" that has been and will continue to proliferate our society for decades to come.

Through advanced telecommunications, there would be little our rural communities couldn't accomplish.

Education

Education telecommunications link-ups would allow educational facilities to form partnerships with rural telcos to facilitate the educational process through the development of two-way interactive video systems. This is what we have done in Guymon, Oklahoma.

This is a system which utilizing fiber optic lines, allows multiple locations and a central station to communicate through both visual and audio means. Utilizing video cameras and monitors along with microphones, all located in each participating facility, students and teachers may observe and communicate with one another as though involved in a face to face encounter. This creates a "regional classroom" which has several advantages for students, teachers and taxpayers. Students are allowed to interact with their peers from around the region which can stimulate healthy exchanges, the teacher is able to work with a greater number of schools and the taxpayers dollars are utilized much more efficiently. For communities where educational resources are limited, this service can provide the special instruction or college prep courses that are lacking. The same facilities can be used after school hours for adult business retraining, health care training and parent-teacher conferences.

Business

The business communities of our rural areas could also benefit immensely from rural development initiatives in telecommunications. As I alluded earlier, this nation is in the midst of a service oriented information age. The exchange of data (information) associated with this age is generally best accomplished via telephonic means. As a result, it is obvious the exchange of information may be accomplished at any location possessing the appropriate facilities for such transmission. Thus, our rural communities, with their available land, employable populations and attractive tax bases, are very logical places for carrying out such activities. For example, many mail order business and computer data processing services are relocating to rural communities and are finding that if the demand is there, the local telco can usually meet their needs.

Agriculture

Putting a slightly different spin on this concept, local rural telcos could utilize federal assistance or incentives to upgrade systems in such a way as to allow the nation's agricultural community to access information services providing everything from market updates to agricultural statistical data to government reporting capabilities. This would instantly alleviate much of the uncertainty typically associated with agricultural decision-making and it would also lessen the cumbersome paperwork those in the agricultural business are often subjected to. Agriculture is so important to this nation as a whole that it is imperative we do what we can to retain the few that are currently left in the business.

Health Care

Finally, in a similar vein as the educational initiative, telecommunications medium could be used to aid our rural health care facilities as they continue their struggle to meet the demands of their communities. Again, through partnerships with the local rural telco, health care facilities can be linked to various facilities that can provide valuable assistance in analyzing and diagnosing medical data, thus avoiding delays and the transport of seriously ill patients. Such an agreement would not only bring new life to many of the nation's rural health care facilities, but to their patients as well.

Ladies and gentlemen, by developing such telecommunications networks, not only are we fostering growth among our rural communities, but we will be contributing to America's overall good economic health.

Though money certainly plays a role in carrying out such lofty objectives, in our current situation, it is not a primary obstacle. The existing REA Telephone and Rural Telephone Bank lending programs are available to implement most of these community services. No, at the moment we face the far greater problem of burdensome Administration proposals that in many ways are restricting our ability to move ahead with rural development initiatives. Perhaps where this is more evident than anywhere else, is in regard to the REA Telephone Loan Program.

Indeed, as I mentioned earlier, the REA Telephone Loan Program is one of the country's stalwarts of rural development. Today, rural America is 95 percent serviced with at least the most basic form of telephony. This would not have been possible without the

REA program. But, the program has certainly not run its course. A percentage of rural America remains unserved. And, existing service must continually be upgraded to meet the technology standards of today and that would be required to carry out the proposals I discussed a few moments ago.

As you well know, recent Administrations have felt that the REA Telephone Loan program has outlived its usefulness and thus should be dismantled. In an effort to cement this concept into the minds of the American public as well as the Congress, those in charge of the program have simply chosen to under-utilize it. Clearly this was not the intent of the implementors of the REA program nor of scores of subsequent government leaders, such as yourselves on this committee, whom have been extremely supportive of the REA and RTB Telephone Loan program.

It may come as a surprise to many that the REA Telephone Loan program does not exist simply to provide loans for telephone lines alone. Loans can include funds for developing or acquiring physical plant such as buildings, computers and other tools, vehicles and additional operating equipment. In addition, loans are not simply to fund projects in yet unserved areas. REA Telephone Loans are allowed and indeed encouraged for purposes of upgrading existing service areas. This would include installing new fiber optic lines, advance switches guaranteeing equal access, and should include cellular service encouraging general business competition. These points on upgrading are especially critical because estimates indicate that at the current rate of upgrading, it may be more than two decades before all rural areas are able to fully compete technologically with urban areas.

Simply ensuring the existence of the REA Telephone Loan program, however, will not guarantee borrower success. Improving the loan application and approval process is an equally important issue. Currently, due partially to foot dragging by the Administration as well as a complicated application process in general, it can often take several months to receive approval for an REA Telephone Loan application. Such timing constraints are devastating to rural telcos and their customers and could be used to completely circumvent serious, well intentioned and much needed rural development initiatives. REA Telephone loans for the express purpose of providing an educational, business, agriculture or health link, should be processed with expediency by the Agency.

Another important issue adversely affecting the REA Telephone Loan program relates to recently issued program regulations that are extremely restrictive. Mr. Chairman, as you know so well, the purpose of instructing the REA to codify existing procedures in the 1987 Reconciliation Act was to consolidate and clarify the policies and requirements of their loan procedures. Unfortunately however, REA took this opportunity to implement major policy changes, which if left unchanged, will ultimately lead to the demise of the REA Telephone Loan program as we know it. Specifically, the regulations impose an unreasonable and unachievable net worth requirement for borrowers to meet; a TIER requirement of 125 percent climbing to 150 percent on all of a borrower's outstanding and proposed REA loans as a requirement to obtain an insured program loan; a reduction in the REA Telephone Loan repayment period and the elimination of authorized loan purposes which now allow approval of funds for physical plant, tools, equipment and vehicles. Mr. English, I understand you are currently preparing legislation to address these problem regulations, and for that I certainly thank you. Perhaps you would consider incorporating these suggestions into your rural development legislation as well, considering the broad negative impact the regulations could have on rural development if left unchanged.

Finally, (and this may even save a few federal dollars!) We believe the Administration should make every effort to utilize unused loan authority from prior years. Because these amounts have already been figured into the budget process and have been scored in the appropriations process, it will have no effect on the federal debt.

Members of the Committee, in general, so much is possible under the REA Telephone Loan program, yet, of late so little is being accomplished simply due to the unwillingness of the

Administration. It is a situation which though unfortunate, can still easily be rectified with the inclusion of specific legislative guidance that could be incorporated in your rural development package. We sure would appreciate your help on this one!

Mr. Chairman, members of the Committee, I can not stress the importance of rural development enough. Implement it now and the entire country will prosper. Ignore it and the stagnated rural areas will ultimately drag down the urban centers as well. As you know, our federal government has focused on national rural policy since before the development of the Constitution. From the days of Thomas Jefferson, rural America's greatest advocate, through Franklin Roosevelt's New Deal reaffirming our commitment to rural America, and on up to the days of the current Presidential Administration, rural development and the importance of our rural communities has not wavered far from most of our minds.

I am hopeful my thoughts as well as those of the other participants in these hearings will assist you in developing legislation that will extend this historic commitment for many years to come.

Thank you!

COSCAA Council of State
Community Affairs Agencies

JOHN SIDOR
Executive Director

WRITTEN STATEMENT OF THE
COUNCIL OF STATE COMMUNITY AFFAIRS AGENCIES

ON

RURAL DEVELOPMENT

PRESENTED TO THE

HOUSE SUBCOMMITTEE ON CONSERVATION, CREDIT

AND RURAL DEVELOPMENT

BY

NEAL J. BARBER, DIRECTOR, VIRGINIA DEPARTMENT
OF HOUSING AND COMMUNITY DEVELOPMENT

AND

SHERWOOD WASHINGTON, DIRECTOR, DIVISION OF
COMMUNITY AFFAIRS AND DEVELOPMENT
OKLAHOMA DEPARTMENT OF COMMERCE

JUNE 13, 1989

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Mr. Chairman, members of the Committee, my name is Neal Barber and I am the Director of the Virginia Department of Housing and Community Development. I also serve as Vice President of the Council of State Community Affairs Agencies (COSCAA).

I am pleased to present a proposal for responding to problems that plague rural America. I am also pleased to do this with my COSCAA colleague, Sherwood Washington, Director, Division of Community Affairs and Development of the Oklahoma Department of Commerce.

Before we outline our proposal, I would like to provide a brief background on COSCAA. COSCAA is the national membership association that represents state departments or agencies involved in economic, community and housing development. COSCAA members are typically those agencies in state government that have responsibility for rural development issues. Thus the proposal we offer represents the considered opinions and ideas of those state government officials in this country who deal daily with rural development problems and issues.

As you know, Mr. Chairman, States like Virginia, Oklahoma and many others have, in recent years, enacted policies, strategies and programs to respond to the development needs of their citizens. I understand that during last Thursday's hearing, the concept of cluster communities in Iowa was discussed. While I cannot comment specifically on that concept as it applies in Iowa, I do know that the state and specifically the COSCAA member, the Department of Economic Development, has helped support that effort. I also understand that idea of secondary markets for business loans was mentioned. You may be interested to know that COSCAA's member, the Minnesota Department of Trade and Economic Development, has recently made an investment, in collaboration with several foundations, in a statewide organization specifically designed to establish a secondary market for business loans made by non-profit development organizations.

These, of course, are only just a few examples of what COSCAA members and state governments are doing throughout the country. In fact, the author David Osborne, writing about the new innovative leadership of state government in his recent book Laboratories of Democracy, noted that "In the 1980's, a fundamentally new economy has been born. With it has come a series of new problems, new opportunities, and new challenges. In states, government has responded." Examples of the activities states have undertaken to specifically address rural development needs and opportunities are provided later in this text, as well as in attachment 1.

This testimony is organized to provide two different geographic and economic perspectives on the issue. First it will briefly outline COSCAA's proposal and suggest how it would apply to rural conditions in Virginia. Testimony from Oklahoma will then examine how the proposal would be utilized in that state. The reason for doing this is to stress the importance of how any federal rural development legislation must be carefully crafted to insure that differing places in the country have the flexibility of using federal resources to respond to their unique local conditions and problems.

While obviously each Committee member is concerned about the rural problems of your district, you are well aware that while the problems may be equally grave elsewhere, the conditions and resources may be totally different, thus necessitating different development strategies and solutions. Rural problems are too great to be addressed by the federal government alone. Only through the combined efforts of the federal government in concert with state and local governments can we begin to meet our rural development objectives and do so in a way that is responsive to local conditions and needs. Unfortunately, there are no cookie-cutter solutions.

As a starting point for COSCAA's proposal it is important to outline several overriding principles that we believe should guide the development of rural development legislation.

- Decisions leading to successful rural economic development are best made by organizations covering economic market areas. New legislation should not create a program that empowers a federal bureaucracy to allocate scarce rural development resources to small local organizations that may not represent an economic unit or an appropriate economic opportunity. Local, regional and state development organizations should not be competing for scarce resources, but should be combining their resources with federal funds towards common objectives. Legislation should establish a local, regional, state, and federal partnership that allows decisions to be made cooperatively.

- The problems of rural America are numerous and diverse. New federal resources that are available should respond to the diversity of needs. Flexibility is essential in whatever programs are devised so that local needs can be met.

- Numerous federal, state, private and philanthropic resources have invested in recent years to build local capacity for economic development. It is important to take advantage of that capacity and not to use precious resources to create new, duplicative institutions. It is incumbent upon the federal government to exercise leadership in bringing the various players together so that all are working in tandem to address the problems of rural America.

- It is critical that meaningful public-private cooperation pervades all development strategies. To accomplish this it is important that flexibility exists for the development of individual state strategies so that the resources of all appropriate entities are used intelligently and a in coordinated fashion.

These principles provide a foundation for COSCAA's proposed Rural Investment and Development Partnership Act. We believe such an Act must address the pressing needs of rural America in a comprehensive way and challenge, as well as encourage, the participation of a variety of public and private development actors. Major resources should be made available to assist rural areas in business development, infrastructure and human resources development, as well as in the building of capacity among local development organizations.

COSCAA Proposal

Under the COSCAA proposed Rural Investment and Development Act it would be the responsibility of the federal government in collaboration with state, regional and local government and development entities to develop strategies and implement programs and projects to revitalize rural America. The Federal government would approve State Rural Development Investment Strategies submitted by a state, and developed through a consortium of state, regional and local development leaders and, accordingly, provide financial resources necessary to implement such approved plans.

The federal government would have financial resources of $300 million to carry out the provisions of the Act. The $300 million of resources would be available for activities associated with business assistance and job creation, physical and human capital infrastructure development and capacity building of development organizations. The Act would require a public and/or private sector match for any expenditure of federal funds.

An investment strategy would be prepared by each state with the participation and approval of representative leaders from state, regional and local development organizations and governments, as appointed by the Governor. The strategy would be submitted for funding by the federal government.

The state would serve as the administering and coordinating entity for preparing the strategy. The strategy would consist of a specific plan of action to carry out the provisions of the Act. The state Investment Strategy would reflect the goals, objectives and priorities of other strategies and/or plans prepared by local and regional development organizations.

At a minimum, the Investment Strategy would document a thorough analysis of rural economic conditions, set forth rural development goals and a comprehensive rural development strategy, set priorities for funding assistance and either identify specific projects for funding or, if appropriate, identify specific criteria for future project awards. The strategy would also indicate the desired level of resources and when possible the administrator and recipient of such assistance.

The strategy would be prepared annually and submitted to the federal government for approval and funding. The State would have a specified period of time from announcement by the federal government to prepare and submit the strategy.

The federal government would have a specified time from submission of the strategy to review and approve it. If the federal government did not approve of any component of a strategy it would detail in writing to the State its concerns with the possibility that the state may override those concerns. Based on the approved investment strategy the federal government would fund applications for assistance as long as submitted applications were in conformance with the approved strategy.

Under the provisions of this Act, a specified amount of dollars annually would be made available to carry out business assistance and job creation activities. Assistance may be used to provide investment and/or loans to private businesses; to capitalize revolving loan funds; and to provide technical, management and financing assistance to private for-profit firms.

Additionally a specified amount of dollars annually would be made available to carry out infrastructure and human capital development activities. The assistance may be used to address traditional physical infrastructure needs, as well as those associated with emerging technologies like telecommunications. Assistance would also be available for social infrastructure needs of an area including those associated with health care and human resources.

Also under the provisions of the Act, a specified amount of dollars annually would be made available to carry out the building of development capacity. Assistance may be used to enable development organizations to plan and manage for development, as well as to foster new leadership and expertise for rural development.

Funding allocations for these activities would be made on a state basis. Each state would be required to expend a minimal portion of its funds in each of the areas identified above, for instance business assistance and capacity building. However, each state would have the flexibility to use the remaining resources in areas of highest priority as determined through the consultation process. Expenditures would then be based on local needs and opportunities, rather than on Washington imposed solutions.

Although various components or aspects of the strategy might well be administered by regional, local, public and private entities, the state would serve as the coordinating entity for preparing and administering the strategy.

These are the basic components of COSCAA's proposed Rural Investment and Development Act. If desired, more specific information can be provided on how this concept would operate. Now however, I would like to provide some idea of what we have been doing in Virginia and how COSCAA's proposal would complement and supplement Virginia's on-going efforts to meet the development needs and opportunities of its rural areas.

Virginia

Virginia, as you are aware, has benefitted from a strong and vigorous economy. Virginia's population ranks twelfth in the nation, exceeding 5.8 million people. Over the last forty years, Virginia's population has grown rapidly, with three-fourths of the population increase occurring in the three major metropolitan areas in eastern Virginia--Northern Virginia, Richmond-Petersburg, and Hampton Roads. Much less growth has occurred in non-metropolitan rural Virginia. Some of these rural localities lost population during this same period of time.

Along with population growth has been a strong growth in employment. Virginia has ranked fifth in non-agricultural employment growth. Between 1984 and 1987, employment grew at the rate of 14.7 percent compared with the national average of 9.1

percent. Virginia's unemployment rate of 3.8 percent is among the nation's lowest. In our metropolitan areas, some of the localities have less than two percent unemployment, whereas the unemployment rate in our coal producing rural region exceeds ten percent.

Virginia's personal income is also very high. In fact, Virginia's per capita income is the highest of any southeastern state and is the only southeastern state to exceed the national average. But forty-nine of our most rural counties and cities have adjusted gross income of less than eighty percent of our State median and unemployment exceeding ten percent. As you can see, many of our rural areas are not participating in the economic prosperity that the State enjoys.

Strengthen Traditional Economic Base

In order to strengthen Virginia's rural economy we must modernize and expand the traditional economic base in rural Virginia. Virginia has provided over $3.5 million to demonstrate how agriculture, the traditional foundation of Virginia's rural economy, can be maintained and enhanced. Of this $3.5 million over one-half million dollars will create farmers' markets, increasing the production and distribution of vegetables and other unique agricultural products. Since forestry products are one of our underutilized resources, Virginia funds demonstration programs for improving forestry technology. Virginia's Department of Agriculture has been restructured to be more market oriented. The recent introduction of "Buy Virginia First" and "Virginia's Finest" campaigns illustrate this effort.

Virginia is becoming more dependent upon a world economy. In order to promote and foster Virginia's competitiveness in the world economy, the Department of World Trade was recently created. This reorganization will improve our access to world markets, educate our State's industries as to opportunities overseas, and conduct research regarding additional opportunities for Virginia's products. Recently Virginia's Governor conducted an overseas mission to the Far East which created an opportunity for the sale of dairy cows to Turkey. This is but one illustration of how traditional agricultural products can be marketed worldwide through state directed efforts.

Diversify Economic Base

The second strategy for rural development is to diversify and enhance the economic base within Virginia's rural areas. Virginia's focus has been on "basic industry" development. Basic industry includes manufacturing, tourism, and basic service industries. In addition to promoting private sector development, the State has actively looked for opportunities to locate state owned and other public facilities in rural areas as an economic development strategy. The construction of two state prisons--one in Buchanan County in far Southwest Virginia and one in Emporia in Virginia's Southside--will increase employment by 258 and 465 employees respectively. While this does represents significant job creation in these rural areas, it is also our expectation that additional businesses will develop and flourish because of the multiplier impact of these facilities.

In addition to state facilities there are other public facilities location options that are available as an economic development strategy. For example, Charles City County recently negotiated an arrangement with a private developer for a major $30 million regional land fill which will employ approximately 100 people.

Virginia's Rural Development Strategy

Virginia's strategy for rural development has focused on four distinct areas--first, infrastructure development; second, business incentives; third, human resources development; and last, leadership and organizational development. Infrastructure includes transportation, water and sewer services, business sites and buildings, and community facilities. Business incentives include worker training, business finance, technical assistance to businesses, access to new technology, and research. Human resources development includes basic educational opportunities, day care, and housing improvement.

Leadership and Organizational Development

Leadership and organizational development is an absolute requirement for rural "development"--not just growth. Growth in our rural areas can be accomplished through increased employment and expansion. Development is a concept of continued self sufficiency and growth without dependence on state or federal financing. It is not satisfactory to provide money alone. It is important that we instill with the rural people the ability to continue to grow and adjust to changes over time. It is important that we develop the organizations so that they also have the ability to meet future challenges and adapt to our rapidly changing world.

Rural leadership development has been integrated into a umber of Virginia's programs to further rural development. One of the premiere programs is the Certified Business Community Program provided through the Department of Economic Development. This program establishes standards that rural communities must meet in order to be designated as a Certified Business Community. Virginia's Main Street Program is another example of this organizational development to strengthen Virginia's smaller downtown areas. Similarly, Virginia offers a technical assistance program for tourism development in our rural communities. All of these programs have similar characteristics. They require that the locality have an organization devoted specifically to a particular purpose. That organization is required to have a budget and staff to carry out its mission. The organization must have a marketing and promotion program to carry out its development objective. As with any business, it is important that there is a product to be marketed. This product may be tourism opportunities within a region, a downtown, or business and industrial sites of a community.

Most often, development organizations in rural areas cover a multi-county or regional area. It is important that there be sufficient resources devoted to a particular activity or task. Often, a community of 1,000 people or a county of 10,000 does not have the financial or personnel resources to devote to an ongoing development organization. In rural areas the economy of an area spans several communities, thus activities to address restructuring of the basic economic framework require regional solutions. Without strong local and regional leadership, assistance from the state or federal government can only be partially effective.

Again, our desire is long-term development of a region, rather than short-term project orientation. It is important to provide organizational mechanisms in rural areas to help rural people help themselves. Virginia's Coalfield Economic Development Authority is an example of the State enabling localities to create a unique local developmental organization with financial resources so that they can work to strengthen the economic base of their region.

Infrastructure Development

One of the foremost keys to economic development is the adequate infrastructure which can support diversified economic activities. First and foremost, transportation facilities must provide adequate access to markets. Governor Baliles took a major step in 1986 and recommended a major statewide transportation initiative. This initiative will yield $420 million per year for the improvement of transportation facilities across the State--many of these in rural areas. More recently, the General Assembly enacted a bill to sell forty-year bonds (dedicating $40 million a year over the next forty years) to improve Route 58 from Cumberland Gap to Virginia Beach. This was done as an economic development initiative, not to relieve traffic congestion in our urban corridor.

Water and sewer are also of utmost importance in support of expanded business activity. Virginia contributes $10 million per year in a Sewer Revolving Fund for the upgrading of sewer systems across the State. This fund is matched by EPA appropriations.

The Community Development Block Grant Program(CDBG) has been used extensively to help upgrade the water and sewer facilities in our smaller communities across the State. Recent research by COSCAA shows that the federal assistance provided by the Department of Housing and Urban Development to states to assist the community development needs of small towns and communities, is one of the largest federal resources for rural economic development. Of the over $1.25 billion spent on economic development activities in recent years, over 70 percent of the funds have gone to non-metropolitan or rural areas. In Virginia, approximately $12 million per year of our annual allocation of almost $20 million has gone towards water and sewer facilities construction that benefit low-income rural citizens of the Commonwealth.

Availability and adequacy of business and industrial sites and buildings in rural areas are of utmost importance to business expansion in rural Virginia. Five million dollars was recently appropriated for the Community for Opportunity Program. This program allows for the construction of a 160-acre business and industrial park in the coal fields of Virginia. This program develops local leadership and combines other state programs to insure adequate transportation, business incentives, and human resources development within the region. While one site was funded in Southwest Virginia, "target industry studies" are being conducted in the Allegheny Highlands, Southside, and Eastern Shore areas of Virginia to set the stage for future expansion of this program.

In addition to the regional industrial park, $13 million has been appropriated for infrastructure development supporting business and industrial sites in Southwest Virginia. Even before improvements were made to property under the Community for Opportunity and Southwest Virginia Infrastructure programs, industry announcements have been made. Three industries have agreed to locate in Southwest Virginia as a result of these investments.

Virginia's Shell Building Program provides for the construction of eight 50,000 square foot shell buildings on prepared industrial sites in rural Virginia. Seventy percent of the industrial prospects coming to Virginia last year were seeking existing buildings. This program is geared to providing the types of facilities that these industries are looking for.

Federal programs are currently targeted towards supporting the location of industry once the industry has agreed to locate. The federal programs are not directed to building local capacity to handle future business locations. Without providing adequate water, sewer, land, and building capacity needed by business, it will be difficult to market areas when such capacity is present in most of our metropolitan areas.

Business Incentives

In addition to having the infrastructure necessary to support business growth, incentives must be provided to help develop business activity within rural areas. First and foremost is the ability to provide a well-trained labor force, tailored to the specific needs of the business. Virginia's Industrial Training Program has been one of the most important incentives we have to offer to new and expanding businesses in Virginia.

In addition to training, Virginia provides financial incentives as well. The Small Business Financing Authority provides fixed asset and working capital financing, using tax exempt and taxable bonds. The General Assembly has appropriated $5 million to begin capitalization of a revolving loan fund which provides low-interest fixed asset financing for business development in rural areas. In addition to this revolving loan fund, the General Assembly just appropriated $1 million to be matched by $5 million from state financial institutions for venture capital and a loan guarantee program. These funds have been appropriated for VEDCORP, a subsidiary of the Rural Virginia Development Foundation. These funds would be specifically targeted to micro business development in rural areas.

Financing alone does not insure successful businesses. One-half million dollars has been appropriated for the creation of small business assistance centers throughout the State. In addition, the Center for Innovative Technology finances entrepreneurship centers and incubators in the State--several located in rural Virginia. These activities have been closely associated with the business assistance provided by the State's twenty-two community colleges. Often, the downtown areas of Virginia's small towns serve as incubators for new and fledgling businesses. In these downtown areas, we have many of the support services necessary to assist small business.

Once businesses have matured, the application of new technology is required to keep the business competitive in the marketplace. The Center for Innovative Technology, through our higher educational institutions, provides the to this new technology. In addition, as a part of the Community for Opportunity Program, we have proposed a research and development voucher system where the State of Virginia would assist in covering half of the cost of product development from the research stage to the actual production stage.

Human Resource Development

Insuring that our rural residents have adequate access to a full range of human services is important to a family functioning in a modern society. First and foremost is the availability of adequate educational opportunities. It has been a goal of Virginia's Governor to increase the standards of quality of education throughout the Commonwealth and decrease the disparity between rural and suburban school systems. In order to strengthen our local school divisions, the State increased its funding for local education by over one-half billion dollars. This increased funding to primary and secondary education is intended to improve the quality of instruction available in rural areas.

Supplementing this appropriation have been several programs to modernize the instruction in some of our most rural school divisions--data processing equipment, telecommunication linkage to other school systems and institutions of higher learning are being funded. A recent report prepared by the State Board of Education recommends major changes in our vocational programs to make them more compatible with the existing and future career opportunities in Virginia. Supplementing the increased support for local school divisions has been increased support in our higher education system--particularly the community college system which serves our rural communities.

Let us not forget those who do not have the basic literacy skills in order to take advantage of educational opportunities. Virginia has appropriated $4.3 million in support of adult literacy efforts in the Commonwealth. Education is the key that unlocks many opportunities for individual growth and development.

Inadequate housing can also be a major deterrent to participating in many job and educational opportunities. The General Assembly appropriated $47.5 million to improve housing conditions throughout the Commonwealth. The majority of this money will be spent to rehabilitate existing housing resources so that individuals can remain in their homes and enjoy decent, safe, and sanitary living conditions.

I hope that the brief outline of the above programs provides you with an overview of the comprehensive approach that Virginia has taken to improving the quality of life and development opportunities in rural Virginia. Rural development cannot be viewed as a single program or a single solution to the problems of our rural areas. A variety of solutions, based upon local leadership and organizational development, have to be implemented. The State of Virginia or federal government can only assist our rural areas when the local leadership and organizations are vibrant.

Need

While Virginia's efforts are extensive in nature, there are still many needs that go unfulfilled. Federal financial support directed towards the following areas will help unmet needs. Basic utilities with the capacity to handle growth must be provided. Developed and available business and industrial sites and buildings are important for the location of new or expanding businesses. Incentives to businesses for locating in rural areas rather than in our metropolitan areas are important. Training and employee services are essential. Management assistance to existing and potential businesses must be provided. Access to new technology and the ability to retool existing businesses are important for the continued success of those businesses in our modern society. Providing educational opportunities for a broad range of our citizens is important so that they can take advantage of employment opportunities in our society. The development of ongoing organizations which can sustain changes in economy, changes in administration, and changes in society is the most important of all.

More specifically and in relation to the COSCAA proposal, we have four primary rural development activities in Virginia that could use additional funding that do not have adequate state or federal resources. First is the support of development organizations in rural areas. In Virginia we have many nonprofit and regional organizations that are involved in economic development. Most of them operate with a very limited budget and staff, thus the focus of these organizations covers a broad range of rural concerns. Additional funding in support of local leadership and capacity building related to rural economic development is required.

Secondly, funding for water and waste water facilities expansion is necessary. Many of our smaller rural towns currently do not meet Safe Drinking Water Act of Clean Water Act requirements, much less have the capacity to support expanded businesses and industrial development. Additional funding is needed to complement state and other federal funding in providing adequate water and waste water treatment with the capacity to support additional economic growth.

Third, there are not adequate developed business and industrial sites and buildings in our rural communities. As you are aware, businesses, when they wish to expand or locate in a community, need land and buildings served by public facilities. Since most of our rural communities are small, they do not have the ability to finance the purchase and development of land for prospective business opportunities. Often, businesses cannot wait two years for a community to extend utilities and develop land necessary for their location.

Fourth, often new or expanded businesses need access to investment capital at a higher risk or at lower rates than can be provided through our banking institutions. Complementary business finance would help support and expand current efforts in Virginia to provide such capital.

I hope the above illustrates how the COSCAA proposal could complement, as well as supplement our efforts. Virginia, as well as many other states, is concerned about the economic prosperity of all our citizens. We are making major efforts to develop those areas of the State that are lagging behind. In Virginia the majority of these areas are in our rural communities. Since we have a long history of working relationships in these rural areas, we can assist in framing the options and opportunities that are available to our rural communities. We do have an elaborate range of developmental programs that are targeted to rural areas and that will help rural areas compete with our more prosperous metropolitan communities. We ask federal government to join us in this effort through the enactment of a new rural development program based on the COSCAA proposed concept.

Sherwood Washington from Oklahoma will now describe the rural development needs of his state and how the COSCAA proposal would enable Oklahoma to better address its rural development needs and opportunities.

Oklahoma

Mr. Chairman and members of the Committee, I am pleased to join my colleague, Mr. Barber, in offering the COSCAA proposal for your consideration. Also, I am pleased to have an opportunity to tell you how this proposal complements our current efforts in rural economic development in Oklahoma.

Due to changing national and international economic conditions, and the decline in Oklahoma's two major sectors of energy and agriculture, we have embarked on a significant program of economic diversification and improvement. Our strategy has been developed through the hard work and innovative thinking of a team of Oklahomans representing all segments of the public and private sectors.

The cooperative Public-Private Partnership for economic development in Oklahoma is called "Oklahoma Futures," which is a central economic development policy planning board responsible for direction of the Strategic Five-Year Development Plan. Under the Oklahoma Economic Development Act of 1987, Oklahoma Futures gives direction to this plan through the Department of Commerce.

In creating the Oklahoma Department of Commerce two years ago, we combined two major agencies with program responsibility for the rural development activities of human and physical resource development, as well as business assistance and business financing. The Department implements thirteen goals and twenty strategies of the Strategic Five-Year Development Plan as formulated by eighteen task forces comprised of over 650 Oklahomans from every walk of life.

Our Oklahoma partnership has the diversity and flexibility to gain maximum benefit from any federal resources made available to us for rural development. We have an existing network in place to provide rural economic development assistance whether it takes the form of financing, education and training, marketing assistance or the improvement of human and physical infrastructure.

Rural Oklahoma is an essential segment of our state. Of the 77 counties in Oklahoma, only 14 are included within Metropolitan

Statistical Areas. Oklahoma also exhibits great diversity between its rural regions, from the large wheat farming and natural resource-based industries of the west to the more diverse activities of the east, such as tourism and the poultry industry. This diversity must be considered when devising any approach to rural economic development.

The COSCAA proposal before you would strengthen and support our leadership role by using an already existing network of public and private entities that would give maximum input to those closest to particular issues or problems. By working with these existing organizations, we are able to combine various resources and take advantage of their capacity and flexibility to meet the diverse needs of rural Oklahoma.

In connection with these efforts, we have one of the most active Rural Enterprise Teams in the nation, bringing together state, local and federal rural development agencies. The composition of our team reflects the COSCAA proposal for establishing a real partnership among federal, state, regional and local development interests, and would help prepare us to devise an investment strategy for rural Oklahoma that identifies and establishes priorities for local and regional needs.

The Oklahoma Department of Commerce works hand in hand on a continuous basis with the Cooperative Extension Service, our State Chamber of Commerce and its local counterparts, utility companies, rural electric cooperatives and the Oklahoma Municipal League. The COSCAA proposal, if enacted, would allow us to add to the resource base of these agencies or organizations to promote rural development consistent with already proven plans.

Given the allocation of funds to each state as addressed by COSCAA, it is vital that the state be allowed to enhance rural development through an existing network such as we have done, rather than creating new, competing organizations. We are in agreement that funding under the proposed act should include a match provision, for the leveraging of private or other federal dollars into particular rural development projects.

The specific activities identified in the proposed COSCAA act, dealing with Business Assistance, Infrastructure Development and Economic Development Capacity Building - are the subjects of specific strategies within our Five Year Development Plan. We are actively pursuing these strategies through our Oklahoma network of agencies and organizations. As in many other states, we have found that existing resources to accomplish these strategies are thinly spread. Many worthwhile projects currently lack funding as a result, but could be successful if the funding levels suggested for the proposal were put in place.

In developing our proposal, COSCAA has limited expenditures to $300 million to conform to existing funds contained in the Congressional Budget Resolution for 1990. While we do believe that additional funds beyond this amount are needed to fully address the problems in rural America, we acknowledge the limits of the federal budget at this time. As such we suggest two approaches for more dollars.

First, we suggest, as indicated earlier, that each project contain a match so that federal dollars are leveraging private sector and other public dollars. Secondly, we propose that Congress form a bipartisan commission to develop a concrete proposal on how existing federal rural development resources and programs can be consolidated and merged into our proposed Act.

In conclusion, we ask that rural development legislation at the national level recognize the broad range of programs offered by the states and complement these programmatic efforts. The federal government should work with us, don't bypass us, and hopefully don't repeat our mistakes. We share a common objective--"development" of our rural communities. We ask that the federal government establish a real and working partnership with Virginia, Oklahoma and the other states as co-investors in the development of rural America.

Thank you for your consideration of COSCAA's proposal and for your interest in these important issues. COSCAA members and staff, Neal or myself would be glad to provide any additional information you may desire and are prepared to assist you in any way possible in enacting rural development legislation.

ATTACHMENT 1

EXAMPLES OF STATE RURAL DEVELOPMENT PROGRAMS AS EXCERPTED FROM COSCAA'S ECONOMIC DEVELOPMENT NEWSLETTER

State Development Dispatch

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Council of State Community Affairs Agencies, Hall of the States, 444 North Capitol Street, Suite 251, Washington, DC 20001 (202) 393-6435

November 10, 1988

IN THIS ISSUE

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Virginia Targets Distressed Rural Areas: The State of Virginia has enacted a new program, Community for Opportunity (CFO), that is designed to enhance human capital, infrastructure and industrial development in economically distressed rural communities. The program will initially be targeted to a distressed region of southwest Virginia.

Michigan Targets Distressed Neighborhoods: Touted as the most comprehensive program of its type in the nation, the state of Michigan has enacted a new program called the Neighborhood Builders Alliance. Initially funded at $13.1 million, the program will provide assistance to neighborhood groups to conduct an array of activities such as economic development, education, employment and training, crime prevention and housing.

Secondary Markets for Economic Development Loans: At COSCAA's recent Annual Conference a workshop was held to examine the possibility of states selling loans to the private sector via some type of secondary market mechanism. This article summarizes the discussion, particularly the comments of two private sector representatives who expressed an interest in purchasing such loans.

Organizing For Economic Development in Massachusetts: The Massachusetts Executive Office of Communities and Development has recently issued a handbook that provides guidance to local areas on the variety of ways they might organize to accomplish various economic development objectives.

New Ideas For Local Employment Initiatives: This article provides a brief overview of a Paris-based organization that studies and reports on innovative programs local organizations around the world have implemented to create employment opportunities.

State Development Dispatch *is a newsletter for COSCAA members and others interested in state economic development. It is intended to provide information for and about states on the latest innovations, issues and activities in economic development. COSCAA welcomes any comments or suggestions. Policies or opinions contained in articles are not intended to represent positions of the COSCAA membership. For further information or inclusion on the mailing list, please contact Brandon Roberts at COSCAA.*

VIRGINIA TARGETS DISTRESSED RURAL AREAS FOR ASSISTANCE

Some regions of the Commonwealth do not share the prosperity enjoyed by most Virginians. The areas with high unemployment and low income lack sufficient infrastructure, a diversified manufacturing and industrial base, and adequate resources for economic growth. These areas with economic deficiencies are primarily rural and undeveloped, and can be characterized by one or two predominant industries. Their employment base is not expanding or diversifying, and the resources necessary to spawn new or expanding business are absent.

To respond to this problem the state enacted a new program involving a series of integrated strategies to meet the needs in distressed areas of the commonwealth. The Community for Opportunity (CFO) Program is designed "to establish a program to enhance human capital, infrastructure and industrial development in economically distressed communities which have high unemployment and low income."

Background

The CFO Program represents a coordinated approach to dealing with the chronic economic distress of a specific region of the Commonwealth that has lagged behind the state's overall economic prosperity. This coordinated approach focuses on an economic restructuring of the region by bringing together a number of interrelated resources to deal with the region's special needs. The centerpiece of the CFO Program is the development of a regional industrial park/business center which will be supported by complementing activities that include human resource development and business incentives.

Research prepared for the Southwest Virginia Economic Development Commission documented the critical economic development needs of the Southwest Virginia Region. The research, summarized in the December 1986 study, The People and Economy of Southwest Virginia, provided background information which guided the development of specific proposals to assist that Region. While the CFO initiative originally proposed assisting a number of distressed areas in the state, it was finally decided to target the initiative to Southwest Virginia as an initial demonstration area.

COSCAA's member, the Department of Housing and Community Development (DHCD), will be the lead implementing agency. However, some components of the Program will be administered by the Department of Economic Development, the Department of Education, the Virginia Employment Commission, and the Department of Agriculture and Consumer Services.

Program Goals and Strategies

The goal of the CFO Program is to create greater economic opportunities for the citizens of the Southwest Virginia Region. The Program's objective is to provide resources and assistance to a specific area in the Region to enable it to develop and sustain healthy local economies. Local development organizations within the Region will compete to be designated the specific CFO area.

The Program is comprised of three interrelated strategies which mirror the three CFO program elements:

- Basic Program Element: to develop the basic infrastructure needed to attract industries and businesses
- Human Resource Development Element: to initiate specialized training and literacy programs for the local work force
- Business Incentive Element: to develop marketing strategies and local business opportunities to strengthen and diversify the region's economy

Components from the three elements will be tailored to meet the region's and communities needs. The Basic Program will be structured to build upon the existing facilities and services of the region. Projects in the Human Resource Development and Business Incentive elements will be designed to attract prospective industries and businesses to locate or expand in the region.

Program Elements

The 1988 General Assembly authorized $4 million for the Basic Program to cover the 1989-1990 biennium. The Basic Program is designed to develop a regional industrial park/business center. This includes development of at least 100 acres of land with a shell building, access roads in the park, full development of one site, water supply and wastewater treatment. Funds for land acquisition and shell building construction will be loaned and the other eligible development costs will be grant monies.

The Human Resource Development program elements are designed to bring the selected region closer to the same labor force characteristics found in more prosperous areas of the State. Two primary efforts to accomplish closing this gap are the Adult Literacy and Specialized Work Force Training Projects.

The Adult Literacy Training will improve the quality of the work force to provide a better educated work force for existing and potential employers. The Literacy Funds ($125,000) are intended to be for contractual services; the service provider may be the local school system or the community college.

The Specialized Work Force Training project is designed for the Virginia Employment Commission and the Department of Economic Development to target monies for the selected CFO region. These agencies will allocate General Fund monies and leverage an equal amount of federal funds to provide specialized work force training specifically needed by the industries. This training will be available to those industries locating in the industrial park/business center as well as other companies which are locating or expanding in the district area. As the lead CFO implementing agency, DHCD will periodically assess the delivery of these training services.

The Business Incentive Element is designed to give the selected area the competitive edge needed to attract investment for jobs. This Element has two parts, one geared to encourage private investment in affected communities and the other geared to the development of locally-owned businesses.

Two projects, Research and Development and Target Business Initiative, focus on encouraging private investment in the selected area. The Research and Development (R and D) Voucher Project will enable companies to acquire research and development assistance from institutions of higher education and the private sector. The vouchers will assist industries in developing production techniques or methods of product applications. The R and D vouchers may be used to identify prototypes that could be introduced into line operation or applied methods for products.

The Target Business Initiative recognizes the need for a strong coordination function as a key aspect to the effectiveness of the CFO Program. DHCD will serve as the lead CFO implementing agency and will, in addition to administering specific program elements, be responsible for the overall Program design, implementation, monitoring and evaluation.

DHCD will assist the selected Regional/Local Development Organization and affected communities in designing a tailored package of CFO and non-CFO resources and support services. In order to avoid having communities negotiate individually with a variety of departments, DHCD will coordinate the delivery of a set of complementary services.

The Agricultural Diversification component of the project, intended to develop locally owned businesses, will be administered by the Virginia Department of Agriculture and Consumer Affairs. The project has been authorized at $50,000 for each year of the 1988-90 biennium. The designated CFO region is the eligible area for the Agricultural Diversification Project.

The purpose of program covers three interrelated objectives: diversification, demonstration, and marketing. Some examples of suggested projects include the following:

- expansion of crops not currently common to a specific growing area of the State
- a production and marketing proposal for the agriculture industry
- development of commercial marketing system for such commodities as hay and straw
- expansion of forest products industry
- new and innovative livestock enterprises
- food processing techniques which would make the use of Virginia products cost effective

Conclusion

The Southwest Virginia Region is the initial target of the CFO Program. Four other areas of the state have also been identified for future consideration. As an initial step, the General Assembly authorized $400,000 for Target Industry Studies for these area. Based on these studies, an overall economic development plan for each region will be prepared.

(Additional attachments are held in the committee files.)

STATEMENT of the American Academy of Family Physicians

BEFORE THE

SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT
COMMITTEE ON AGRICULTURE

CONCERNING RURAL ECONOMIC DEVELOPMENT

June 13, 1989

Presented by

Kenneth W. Whittington, M.D.
President-elect

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My name is Kenneth Whittington, M.D., and I am President-elect of the American Academy of Family Physicians, the national medical specialty organization representing over 66,000 practicing family physicians, residents in training, and medical students. On behalf of our members and their patients, I am delighted to appear before this committee to discuss rural health care and rural economic development.

The economic well-being of rural communities is of particular importance to family physicians. Nearly 30 percent of family physicians live and practice in rural communities, which is a percentage almost twice that for the medical profession as a whole. Nearly half of graduating family practice residents are locating their practices in rural areas or in towns with populations of 25,000 or less. The Academy recently consolidated its broad activities related to rural health care into a Rural Health Task Force, which I am privileged to chair.

Mr. Chairman, the economic downturn in rural America is compounded by a mounting crisis in access to health care services. Rural hospitals increasingly face financial jeopardy, and rural communities continue to experience difficulty attracting and maintaining an adequate supply of physicians. It is of crucial importance to recognize the close relationship between the economic viability of rural communities and the health care infrastructure. As you know, rural communities are often economically dependent on a relatively small number of industries; they lack the diversity that protects urban communities from the changing winds of economic fortune. Within rural communities health care facilities, be they hospitals or nursing homes, are major contributors to the local economy in terms of providing jobs and as major purchasers of goods and services. Moreover, the decision to locate other industries in rural areas often hinges on the availability of health care. The well-being of the rural health care system serves a barometer for the general well-being of rural communities.

Rural Hospitals

There is a widespread recognition that Medicare reimbursement policies disadvantage rural health care providers. These policies are of special concern because a disproportionate share of the elderly live in rural areas (30 percent of the elderly live in rural areas as compared to 25 percent of the general population). Furthermore, a disproportionate share of the nation's 37 million uninsured residents live in rural areas.

Medicare's Prospective Payment System (PPS) has systematically disadvantaged rural hospitals. Rural hospitals are paid, on average, approximately 40 percent less than urban hospitals for the same service. Because rural hospitals serve a higher proportion of Medicare beneficiaries than do urban hospitals, they are extremely vulnerable to disadvantageous Medicare payment policies. Furthermore, because rural residents are less likely to have private insurance, rural hospitals are less able to compensate for inadequate Medicare payments by shifting costs to other third party payers. The long-run effect of the PPS payment policies has been to bring approximately 600 rural hospitals to the brink of financial collapse.

The financial incentives that underlie PPS payment formulas are based on the assumption that an efficient hospital can achieve below average costs when care is delivered to a large number of patients in any particular diagnosis-related group (DRG). However, by their very nature, rural hospitals cannot generate the kind of patient volume necessary to achieve the economies of scale required to survive under PPS. In some small rural hospitals a single patient that requires an extraordinarily long or expensive hospital stay can jeopardize the hospital's financial well-being. Moreover, rural hospitals must meet the broad health care needs of the beneficiaries that they serve; they do not have the luxury of specializing in a small number of profitable DRGs.

As noted above, PPS payment formulas have resulted in Medicare payments to rural hospitals that are often as much as 40 percent below payments to urban hospitals for the same service. This differential consists of three components: (1) the area wage index, (2) the case mix adjustment, and (3) the Medicare urban-rural standardized amount. The area wage index is intended to reflect geographic differences in the wages that hospitals must pay their employees. The case mix adjustment is designed to recognize differences in the severity of illness of patients treated at different hospitals. Finally, the standardized amount represents the average cost of treating the average Medicare patient in the average DRG. It incorporates all routine costs of care and is calculated separately for urban and rural areas.

We are concerned about potential bias in all three components that contribute to the current urban-rural differential in Medicare hospital payments. Most notably, the urban-rural differential in the standardized amount, which is currently just over 11 percent, has no rational justification. The area wage index may not reflect the high wages that rural hospitals must pay its professional employees in order to attract and keep them in rural areas. And, the case mix adjustment may reflect a more intensive style of practice rather than true differences in the severity of patient illness.

The Academy believes that rural hospitals are the centerpiece of the rural health care infrastructure, and we are extremely concerned that Medicare, as an instrument of federal health policy, may be undermining the viability of that infrastructure.

Clearly, the reasons for the perilous situation facing rural hospitals are complex and multifactorial. In light of the financial constraints now facing the American health care system, the excess number of hospital beds in this country indicate that some hospitals, both urban and rural, should close. However, under present circumstances, hospital survival is not determined on the basis of need, but rather on the basis of financial viability. This situation puts rural communities in extreme jeopardy, for often there is no alternative hospital at which to seek care, and the loss of a rural hospital may mean considerably more than the loss of inpatient care, it may dislodge a cornerstone of the local economy.

Mr. Chairman, as you know, the Congress is considering a number of proposals that seek to remedy the plight of rural hospitals. At a minimum, we believe that the urban-rural differential in the standardized amount should be eliminated. This would provide a small degree of immediate relief and allow Congress a modicum of time to explore more substantive, long-range reforms aimed at ensuring reasonable access to hospital services in rural areas. As an additional short-run measure, we support the option of cost-based reimbursement for rural hospitals.

For the longer term, it must be recognized that because of the very nature of rural communities, PPS, as it is presently conceived, may never provide equitable reimbursement for rural hospitals. Congress should develop a reasonable approach to ensuring access to hospital services that is sufficiently flexible to meet variations in local conditions. Hospitals provide essential health care services and their long-run well-being must be ensured. We look forward to working with the Congress in developing proposals that will allow the Medicare program to meet its obligation to provide reasonable access to hospital services to rural beneficiaries.

Physician Payment Reform

The viability of rural hospitals is closely tied to the availability of the physicians who practice in them. A recent General Accounting Office report identified the loss of physicians as a major factor in the closure of rural hospitals. The AAFP is concerned that the Medicare program contributes to the inability of rural communities to attract and hold physicians.

In a fashion analogous to the urban-rural differential in Medicare hospital payment, specialty and geographic differentials in Medicare physician payment have disadvantaged rural providers. These differentials result in significantly lower payments for equivalent services to physicians who choose primary care specialties or who locate in rural communities.

Separate specialty fee screens have resulted in significantly lower prevailing fees for general practitioners and family physicians than for internists and surgical specialists for identically coded services. Specialty differentials are more likely to apply to visit services than to procedural services. Prevailing charges for different visits are on average 24 to 73 percent higher for internists than for general practitioners.

The calculation of Medicare physician fees is influenced by the manner in which the boundaries of charge localities were drawn. In rural areas a higher proportion of charges used to calculate the prevailing charges were those of general practitioners and other primary care physicians who tended to have lower fees relative to other physicians. By contrast, the prevailing fee calculations in urban areas included a higher proportion of fees from specialists whose fees tend to be higher. Thus, the prevailing fees in rural areas were biased downward in comparison to urban areas. For example, Medicare's rates for office visits to internists by established patients are on average 50 percent higher in urban areas than in rural areas.

Medicare specialty and geographic differentials are thought to present physicians with perverse economic incentives in regard to (1) which services to provide, (2) what specialty training to undertake, and (3) where to practice.

Physicians' choice of specialty indirectly affects what services are available to patients. Specialty differentials are thought to have contributed to a growing surplus of medical and surgical specialists and to a relative shortage of primary care providers. International comparisons are useful on this point. Approximately 17 percent of all physicians in this country are general and family physicians. In Canada and Great Britain general and family physicians comprise 50 and 63 percent of all physicians, respectively.

Recent American Medical Association (AMA) data indicate that general/family physicians have lower incomes than any other specialty except pediatrics. Between 1977 and 1987 the real income of general/family physicians decreased at an annual rate of 0.3 percent while real income of all physicians increased at an annual rate of 1.5 percent. The rising cost of medical education and the declining availability of subsidized loan programs serve as further disincentives to selecting a primary care specialty or a rural practice location.

Rural physicians are particularly sensitive to Medicare reimbursement policies, since a greater portion of their practices consist of Medicare beneficiaries. The geographic maldistribution of physicians is well documented and has not been significantly impacted by the growing supply of physicians. Approximately 17 percent of all physicians are located in rural areas as compared to 25 percent of the general population and 30 percent of Medicare beneficiaries. Rural physicians earn approximately eight percent less than their urban counterparts yet see more patients and face slightly higher professional costs. Moreover, rural physicians' incomes have risen more slowly than urban physicians' incomes while the professional expenses facing rural physicians have risen faster.

Access to physician services is only partially dependent on the geographic availability of physicians. Beneficiaries must also be able to pay for services. Financial access is, in part, dependent on physician willingness to accept assignment. Because of its specialty and geographic differentials, Medicare pays a lower percentage of billed charges for visits than for procedures and in rural rather than in urban locations. Beneficiaries have higher relative out-of-pocket expenses for primary care and rural physician services.

To the aforementioned should be added that it is simply inequitable to pay physicians in different specialties and practice locations different amounts for the same service. In effect, beneficiaries in rural areas subsidize the more expensive, but otherwise identical care received by urban beneficiaries. Moreover, specialty and geographic differentials are inconsistent with federal policies that incorporate uniform payment amounts such as social security, the federal income tax, and the Part B premium.

In its recent report to Congress the Physician Payment Review Commission (PPRC) issued a broad range of recommendations for reforming Medicare Physician payment. The centerpiece of the Commission's recommendations is a resource-based physician fee schedule, which would establish a single national fee for physician services modified only by differences in the cost of practice and professional liability insurance. While the Academy largely supports the recommendations of the Commission, we remain concerned that the commission continues to justify geographic differentials based on the presumption that there are geographic differences in the cost of practice and that urban practices are more expensive to operate than rural practices. The PPRC has recommended utilizing a geographic multiplier that is intended to reflect geographic differences in the cost of practice.

The conclusion reached by PPRC in recommending a geographic cost-of-practice multiplier is contradicted by Medical Economics and AMA data, which show the cost of rural practice to be higher than in other locations. Recent AMA data indicate that mean professional expenses for rural physicians are $6,000 higher than for physicians in the largest metropolitan areas. Medical Economics surveys indicate a stable pattern of higher professional expenses for rural physicians both in terms of actual dollar amounts and as a percentage of gross practice revenues. The following chart shows annual practice expenses for urban, suburban and rural physicians in terms of dollar amounts and as a percentage of gross practice revenue. The dates in parentheses indicate the dates on which this data were published in Medical Economics.

Year	1982 (3/5/84)		1984 (11/11/85)		1985 (11/10/86)		1986 (9/7/87)		1987 (9/5/88)	
	$	%	$	%	$	%	$	%	$	%
Urban	52,350	35.4	61.810	36.9	60,000	36.3	60,870	43.0	91.540	43.0
Suburban	53,980	37.8	66,780	38.8	69.220	39.0	72,750	47.2	96,310	45.6
Rural	56,070	38.8	63.330	39.8	69.500	43.8	73,500	51.8	96,050	47.8

In taking a broad look at the body of data available on practice costs it is apparent that there is no compelling evidence of any systematic variation in practice costs, i.e., there is no objective support for implementing a geographic multiplier in a Medicare physician fee schedule. A valuable lesson on this matter is available to policy makers from the implementation of the PPS. When PPS was designed in the early 1980s, certain assumptions were made about the relative costs facing urban and rural hospitals. Because it was assumed that urban hospitals face significantly higher input costs, the urban/rural differential was built into DRG reimbursement rates. The disastrous consequences of having made that assumption are now being felt by hundreds of rural communities. Much effort is now being expended to undo the unintended effects of a faulty and unfounded assumption regarding relative costs. Policy makers would be well advised to exercise due caution before making a similar unfounded assumption in reforming Medicare physician payment.

Notwithstanding the above discussion on the geographic multiplier, the overall impact of PPRC's recommendations on rural areas is likely to be highly positive. The fee schedule would substantially shift payment rates from procedural services to visit services and from urban practice locations to rural communities. The long-run impact of the PPRC recommendations on the accessibility of health care in rural communities may be especially positive. If Medicare physician payment reform results in a leveling of the disparity in income between specialties and across geographic areas, a significantly larger proportion of physicians might choose primary care specialties and rural practice locations.

The AAFP believes that a cost-based fee schedule offers greater potential to achieve meaningful physician reimbursement reform than anything that has occurred in many years. We urge Congress to act this year to reform Medicare physician payment based on the PPRC recommendations.

STATEMENT OF THE NATIONAL FARMERS UNION

Submitted by Michael V. Dunn
Legislative Director

presented on June 13, 1989, to the
Conservation, Credit, and Rural Development Subcommittee
of the House Agricultural Committee

Relative to
RURAL DEVELOPMENT

Good morning. I am Michael V. Dunn, Legislative Director of the National Farmers Union. We wish to commend the Chairman and the Subcommittee for providing the opportunity for a discussion of the economic revitalization of Rural America.

It is not surprising that there is interest, once again, in rural development. The 2,400 rural counties of the nation lost one and a quarter million residents in 1986 and 1987 alone. In 1959, when poverty rates were first calculated, the rate for farmers was a stunning 45%. Great progress in relieving farm poverty was achieved in the 1960's. By 1973, the farm poverty rate was down to 13.4%.

Then, as the farm programs were scaled down, farm poverty began to creep upward again. By 1979, it was up to 17.7% and by 1983 to 23.7%. Today, it is estimated at 25% with hired farm workers at 31% and rural nonfarm people at 19%. This compared with a 13.4% poverty rate for the general population.

The deterioration of the rural infrastructure continues at an alarming rate, while the tax base to finance needed repairs and replacements is declining or stagnating. Basic necessities such as health care and education are becoming second rate or non-existent in rural areas. Amenities such as recreation and even shopping are dwindling.

The renaissance that rural communities experienced in the 1970s as a result of new residents seeking "quality of life", is now a faded memory. Instead there are boarded-up store fronts on Main street, bankruptcies, property devaluation and shattered dreams.

The heartland and rural citizens have not participated in America's recovery. It is now time to turn our attention to this very pressing need. America cannot afford to continue developing a bi-coastal economy, and turn its back on rural residents. It is time focus the attention and resources of the nation to begin a rural revitalization.

Diversification of employment opportunities is definitely needed in rural regions. However, we visualize that the creation of service, communications and professional job opportunities will take much time and substantial investment. Perhaps, 10 to 15 years and as much as several billions of dollars in development programs, loans and loan guarantees will be required.

The quickest way to stabilize and turn around the rural economy is to restore profitably to agriculture. Just a return to price and income support levels of 1980, would pump $10 billions of added income into agriculture and rural America. But, this does not appear likely. The provisions of the Food Security Act of 1985, which will apply in 1989 and 1990, will cause further declines of several billions of dollars in the farm economy.

There has been talk of including a rural development title in the 1990 Farm Bill. However, there appears to be a window of opportunity to get a rural development bill passed in 1989. If this is the case, such an opportunity should be taken. Rural development might be lost in the shuffle if it is included in a 1990 Farm Bill.

NFU Position: NFU SUPPORTS A COMPREHENSIVE RURAL DEVELOPMENT PACKAGE, WHICH SHOULD INCLUDE THE FOLLOWING:

1. The bill should be omnibus. There is a need to take a comprehensive approach to rural development. It has been estimated that as much as $140 billion in federal monies go to rural areas each year through various federal government programs. It is unlikely, given the present federal deficit, that substantial additional federal dollars will be allocated to rural areas. Hence, to achieve the goal of rural development, better utilization of existing programs and funding must take place.

This can only happen if a comprehensive view of the various federal programs is taken. It will require coordination and the cooperation of the various federal agencies that are involved. This was mandated by the Rural Development Policy Act of 1980. However, the past Administration's implementation of this Act was less than satisfactory.

There is a need to reaffirm a commitment to the coordination of federal programs to rural development. In addition state and local efforts should be included in the effort to coordinate the delivery of efforts.

2. Part of the comprehensive approach should include a look at the total development needs of rural communities. Besides the traditional brick and mortar approach to rural development, social needs should be addressed. Health care, education, human resource development, as well as venture capital, transportation and telecommunication must be addressed.

3. Research and education must play an important role as well. Research on new products for the food and fiber produced by the agricultural sector should take place. Alternative crops must be developed. A long term commitment to developing the processing and marketing of such new commodities is needed.

4. There is a need to include capacity building at the local level. If rural development is to take place, there is a need to develop a cadre of expertise in rural communities. Such expertise should not be designed to establish only a grantsperson to take advantage of various government programs -- it should also be designed to encourage the development of local citizens in community development and entrepreneurial skills.

We believe that a rural development initiative, as outlined above, can be implemented at little new cost to the federal budget. It will, however, take a commitment on the part of Congress and the Administration.

First, congress must demonstrate a willingness for various committees and subcommittees to work together to address the needs of rural communities in a comprehensive manner. Second, the Administration must coordinate the implementation of development programs by the various departments. If this takes place there is a real possibility that comprehensive meaningful rural development legislation can be passed and implemented.

RURAL ECONOMIC DEVELOPMENT

THURSDAY, JUNE 15, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Tallon, Penny, Nagle, Harris, Espy, Long, Coleman, Gunderson, and Grandy.

Staff present: Daniel E. Brinza, counsel; John E. Hogan, minority counsel; Alice Devine, minority associate counsel; Glenda L. Temple, clerk; and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The hearing will come to order.

Today is the fourth hearing in rural development which the subcommittee has been holding.

We will continue with these important hearings for the remainder of the month of June, meeting each Tuesday and Thursday.

To date, we have received testimony from an array of organizations with an interest in improving economic conditions in our rural towns and communities.

The testimony presented has demonstrated the urgency of the task before us and the need to address the multitude of problems facing our rural communities which have been neglected for far too long.

The witnesses today will give us greater insight into the problems facing rural areas in the financial sector.

The Independent Bankers Association of American and the Farm Credit Council both represent constituents with an interest in the financial soundness of rural America.

Those of us on this subcommittee recognize the importance of an economically viable rural America and hopefully these two organizations will give us some thoughts on how communities might marshal their resources into business opportunities and expand growth.

We will also hear from the National Cooperative Business Association. The cooperatives have a long-standing presence in rural America and have successfully contributed to the economic wellbeing of many of the communities.

And finally, we will hear from two leaders in rural economic development who have been actively involved in field work for the past 2 years and who have compiled a major study on the needs in rural America.

We look forward to the testimony from all our witnesses today as the subcommittee pursues the challenges facing rural America.

Without objection, the record will remain open for 10 days so other members can submit a prepared statement for the record.

[The prepared statement of Mr. Espy follows:]

JUNE 15, 1989

OPENING STATEMENT BY CONGRESSMAN MIKE ESPY BEFORE THE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

MR. CHAIRMAN, I AM PLEASED WITH THE PROGRESS OF THIS SUBCOMMITTEE IN IT'S ATTEMPT TO HEAR THE MANY DIFFERENT VIEWS ON RURAL DEVELOPMENT AND THE PROBLEMS WE FACE TODAY IN RURAL AMERICA. IT IS CLEAR THAT THE TIME HAS COME FOR THE FEDERAL GOVERNMENT TO REASSESS ITS ROLE IN THE FUTURE OF THIS COUNTRY'S 62 MILLION RURAL AMERICANS.

MORE AND MORE OF OUR YOUNG PEOPLE LEAVE FAMILY FARMS AND SMALL FAMILY BUSINESSES FOR EDUCATIONAL AND EMPLOYMENT OPPORTUNITIES IN URBAN CITIES. AS THEY LEAVE, THE VOICE OF RURAL AMERICA GROWS EVER FAINTER ON CAPITOL HILL. EVEN THOUGH MORE THAN 62 MILLION CITIZENS STILL LIVE IN AMERICA'S RURAL COMMUNITIES, FEW MEMBERS OF CONGRESS REPRESENT PRODOMINATELY RURAL DISTRICTS.

A RECENT STUDY, CONDUCTED BY THE RESEARCH AND DEVELOPMENT CENTER IN JACKSON, MISSISSIPPI, SHOWED THAT BY THE YEAR 2010, 12 OF THE 22 COUNTIES IN MY DISTRICT WILL DROP IN POPULATION. PEOPLE ARE LEAVING THESE AREAS BECAUES NO OPPORTUNITIES EXIST FOR THEM. THESE FIGURES CLEARLY SHOW THAT THIS PROBLEM NEEDS IMEDIATE ATTENTION.

MR. CHAIRMAN, THIS CONGRESS HAS THE RESPONSIBILITY TO FOCUS ON THE PROBLEMS FACING RURAL AMERICA TODAY, AND PROVIDE SOLUTIONS TO THESE PROBLEMS WITHIN THE FISCAL RESTRAINTS THAT IT FACES.

I LOOK FORWARD TO HEARING TODAYS WITNESSES.

Mr. **English**. Our first witness today is Mr. Jack W. Dickey, who is president of the First National Bank of Thomas, OK, testifying on behalf of the Independent Bankers Association of America, Washington, DC.

Let me say to all of our witnesses today, that without objection, your complete written testimony will be made a part of the record, if you summarize.

Please feel free to summarize that testimony.

Jack, we will be happy to have your testimony.

STATEMENT OF JACK W. DICKEY, PRESIDENT, FIRST NATIONAL BANK OF THOMAS, OK, AND CHAIRMAN, AGRICULTURE-RURAL AMERICA COMMITTEE, INDEPENDENT BANKERS ASSOCIATION OF AMERICA

Mr. **Dickey**. Good morning, Mr. Chairman, and members of the subcommittee, I am Jack Dickey, president, First National Bank, Thomas, OK, and serve as chairman of the Agriculture-Rural America Committee for the Independent Bankers Association of America.

A major segment, of IBAA membership banks are community banks serving rural areas. The IBAA membership includes about 4,270 rural banks, located outside of metropolitan areas.

Two-thirds of those rural banks are also substantially involved in agriculture, having at least 15 percent of their total loans in agriculture.

Local community banks are well positioned to contribute to virtually all aspects of rural economic activity. Functioning within the proper bounds of financial safety and soundness, those banks are just as committed to the betterment of their rural communities as any other public, private, or cooperative institution might be.

Although our rural communities and economies face many challenges, it is well to bear in mind that thousands of small businesses are operating today in rural communities with financing provided primarily by local banks in those communities.

Commercial banks have plenty of funds to loan to qualified borrowers in rural communities. Loan-to-deposit ratios are relatively low, and most banks are seeking loans to add to their portfolios. There is no basic shortage of credit for rural economic development.

Banks have plenty of funds. Of course banks must operate within the limits of safety and soundness.

Rural businesses, like any others, must demonstrate that they can generate sufficient cash flow and provide adequate equity capital to obtain financing. In the absence of these, a third party credit enhancement or guarantee is essential.

Credit enhancements can be a valuable tool to stimulate rural economic development. There are various ways such enhancements can be provided.

Government loan guarantees, when structured and managed properly, have proven effective in leveraging of private capital for business development.

For years the Farmers Home Administration operated the Rural Business and Industry Loan Guarantee Program and provided substantial new funds for rural businesses.

The B and I Program could be simplified and revived.

The volume of authorized funding under the B and I Program needs to be increased to a level that makes it worth considering by lenders and businesses. An annual level of $1 billion would be a minimum for a viable program.

Since they guarantee leveraged private capital, this approach is relatively prudent in terms of exposure to the Treasury. The program would be cost-effective by using existing FmHA personnel for Federal oversight.

In reviving the B and I Program, the percentage of the Farmers Home Administration guarantee must be considered. Recent administrative changes have moved in the direction of decreasing the percentage of the guarantee.

Such changes undercut the usability of the program and the consequent ability to stimulate new businesses in rural areas. If the B and I Program is revived, we strongly recommend that Congress fix the guarantee level at 90 percent.

The Small Business Administration Guaranteed Loan Program continues to provide credit enhancement for small businesses. SBA loan guarantees charged through local commercial banks tend to assure that rural businesses get a major share of the financing.

Some legislative proposals provide at-risk reserve funds that are subordinated to bank credit to make rural business prospects more feasible to financing.

One example is the State of Michigan. The concept of linking more equity funds with bank credit in financing rural business expansion is promising, if substantial equity funds can be found and the financing package can be tied together workably.

We encourage the committee to consider both of these proposals.

Commercial banks can finance rural water and sewer systems. One problem is the long-term maturity of such loans.

It would be useful for the Farmers Home Administration to guarantee such loans.

Many rural hospitals are having serious financial problems. Our hospital in Thomas is in great jeopardy at this time.

A number of communities in Oklahoma and other States have lost their hospitals. Efforts must be made to equalize the Medicare payments between the metropolitan and rural hospitals.

Likewise, the discriminatory policy of paying doctors in metropolitan areas more for the same procedure must be ended.

Mr. Chairman, we are supportive of your efforts in seeking better treatment for rural hospitals under Federal health care programs.

We encourage this committee in your deliberations to give particular attention to rural hospitals.

Thank you for allowing me this time today.

I will be pleased to respond to any questions.

[The prepared statement of Mr. Dickey appears at the conclusion of the hearing.]

Mr. English. Thank you, Jack.

I notice in your testimony you state, "There is no basic shortage of credit for rural economic development." There have been many bankers in our part of the country that have indicated banking examiners are not too enthusiastic about investments in such things as new businesses starting up, little cottage industries starting up, or things of that sort. I was surprised to see that.

Could you enlighten us a little bit with regard to what you mean by that statement?

Mr. DICKEY. Yes, sir.

First, what the bankers have told you about the examinations and the regulatory aspect of how they look at these loans is true. That is not a result of liquidity problems with the banks or not having ample funds to fund those type of loans.

The problem is the credits in a start-up business are difficult.

You are basically programming that loan on future projections rather than past history, which examiners are very fond of looking at. That is why I mentioned in my testimony the need for credit enhancements, the need for Federal seed money possibly matched by the town of Thomas, or Custer County in some way and then bank financing provided.

It is going to take a combination of these things in order for us to make the type of loans to attract new industry.

Mr. ENGLISH. I guess I am troubled. If the bank examiners are giving small banks a hard time about making these kinds of loans, if I was a banker, I would be extremely reluctant to make one?

Mr. DICKEY. That is true.

Mr. ENGLISH. Also we keep hearing complaints about money in our part of the country going out of the State to the east coast or west coast. This is where investments are being made with very little investment being introduced in rural communities. That is, the communities in the Great Plains area which are in the middle of the United States.

Is that an accurate perception? If so, again it would appear that from the standpoint of someone who needs a loan, wants to start up a small business or start up a small industry that may employ 20 or 30 people. It still comes down to the same bottom line, he isn't going to have any money.

Without any credit he can't start his business. Is that an accurate perception?

Mr. DICKEY. Yes, it is, Congressman. But in that type of situation if we did have some of this Federal seed money that possibly the town of Thomas could match through a sales-tax increase, increase in water, sewer revenues some way in order to match that money and to provide some of that, if you will, venture capital together into that business, then if the bank could come in, make a loan to that business based on these future projections, there is some equity now that has been established.

If through the Farmers Home Administration I could obtain a 90-percent guarantee on a 7-, 10-, 15-year loan, or longer, if it is based on real estate, then I will not have the problems with the examiners in classifying that guaranteed portion of the loan.

A Farmers Home guarantee, at least to this point, the examiners have not criticized or classified that portion of the loan that carries the guarantee. It allows us to stretch out——

Mr. **English**. What about the 10 percent, it's not guaranteed? Do they criticize that?

Mr. **Dickey**. They don't have any difficulty in criticizing that.

Mr. **English**. What we are talking about here is any money that is loaned by a bank, belongs to the bank under these circumstances, as it stands today they will get criticized?

Mr. **Dickey**. Any loan may be somewhat too broad. I have a number of——

Mr. **English**. How about overwhelming majority?

Mr. **Dickey**. Maybe the majority. I have a number of Farmers Home guaranteed loans in my bank that are made directly to the farmer.

Out of about 10, I think 3 of these are classified at this time.

Mr. **English**. I guess the question I am raising is that this is a different situation than a traditional farm loan. What we are talking about here is rural development loans, loans which are basically going to create new businesses which don't have a great success rate.

I think if you look at new businesses starting up in the United States, you will find that the majority of those fail after 5 or 10 years.

So I guess the question I am asking is, Will this cause more trouble than the traditional farm loan as far as the bank examiner is concerned?

Mr. **Dickey**. It well could, particularly if it is to a start-up business. Let me assure you if I can find that business to come to Thomas to employ 20 people, let the bank examiners classify that 10 percent in my bank.

I will take that heat.

Mr. **English**. Mr. Coleman.

Mr. **Coleman**. You mentioned 90-percent guarantees. What is the lowest that would be conducive for you to enter into a guaranteed loan under these circumstances?

Mr. **Dickey**. Congressman, I think the 90 percent is an adequate level. I also think it is a minimum level for exactly the reasons that Congressman English was hitting at.

That when there is a high degree of risk, that the portion not guaranteed, retained by the bank is going to be classified by the examiners. We can only stand so much of that.

The 90-percent level needs to be fixed in any legislation.

Mr. **Coleman**. I have introduced a bill which provides for guaranteed loans for new businesses and infrastructure and other things. We did not set the guaranteed portion of it, but left it to the Secretary to determine what the guarantee might be.

In the past, 90 percent has been a standard. The advantage to us is we don't have to score this on the budget.

That was one reason for doing that.

Of course, we would be working through the private financial interests to accomplish this. I hope that the association is gearing up to support some concept like this, because in the past, whenever we have tried to do something in rural development, the issue was how much does it cost? Where are you going to get the money?

Those are questions that are very difficult to answer. Even though the budget may have some extra money in it this year, I think we are still going to have to use a guaranteed program to make this meaningful, to get enough going in rural areas to make a difference.

I encourage you to do that, and hopefully together with the committee we can structure something that will work.

Mr. **Dickey**. Yes, sir.

I think we would be very excited about supporting such a program. I would urge one caveat, that sometimes in the recent past the Secretary of Agriculture has not always done what Congress thought was appropriate and maybe even what Congress intended.

There can be too much leeway in such legislation. However, the next Secretary of Agriculture may not support that type of legislation and may decide on his own the way to handle this is to reduce the guarantee to 50 percent.

He has effectively killed the program.

Mr. **English**. Ms. Long.

Ms. **Long**. No questions.

Mr. **English**. Jack, I wanted to ask you about another aspect of the guaranteed loan. Others have suggested the secondary market that was created in 1987, and it is now on the verge of being implemented, maybe another way of going at this.

Do you have any thoughts with regard to the use of the secondary market as a means of dealing with some of the financing for rural development?

Mr. **Dickey**. Yes, sir.

In a number of the guaranteed loans that I have through the Farmers Home Administration I have sold the 90 percent guaranteed portion.

In that market—I can't really say what I would like to say. In the market today for those type of loans there are very few brokers who are probably not the most ethical in the world, that is why they are dealing in a rather limited, narrow market, who promise things that they can't necessarily deliver.

I think the program that I understand the Department of Agriculture is working on in the Farmers Home Administration to establish a secondary market for those type loans could be very beneficial and help banks in the area that when liquidity is needed, those loans may be sold into the secondary market, obtaining some of the money center funds to help finance rural America.

I think that is very appropriate. We will get some of that money back that has been going to California and New York.

Mr. **English**. Well, the investment community has indicated that rather than using the secondary market that was created in 1987, we should have a secondary market for rural development-type loans.

Do you have any thoughts in regard to this as opposed to simply using the one that is about to be implemented?

Mr. **Dickey**. If the Farmers Home Administration comes forward with their secondary market for their guaranteed loans and the program for rural development would carry those guarantees, then I think maybe we, you could establish a secondary market for those types of loans maybe a lot more simply than having to create a whole new market.

We have been working in our association very closely with Farmer Mac and trying to wrestle with those regulations in the development to see exactly how the banks are going to participate.

Hopefully, that is going to get off the ground this year, but there are still a lot of unanswered questions.

Mr. **English**. Should we, in regard to the guarantees, limit those loans to businesses that are going to hire 10 people or something of that sort?

Should there be a number or should this simply be open to anyone who wants to open up shop and put in a business which will employ maybe one or two people?

Is this a local retail issue or something that should involve a small industry.

Mr. **Dickey**. Congressman, being from Thomas with a population of 1,300 people, and a county population of somewhat 35,000, my interest is in the small business.

I see no reason why Congress should spend millions of dollars funding businesses that are like 3-M, has a plant located in Weatherford. Their local development authority helped to establish that plant in 3-M; 3-M doesn't need any Federal financing to do that.

I think those types of industries are not needing these funds. It is the small "mom and pop" operation, the 20 employees that have the difficulty in finding the financing.

Mr. **English**. Would you distinguish between that kind of operation as opposed to, a retail store? Somebody puts in a retail store and says, "I am going to hire a couple of people to work here. Therefore, I am entitled to a guaranteed loan?"

Should there be a distinction made between those two?

Mr. **Dickey**. I am not sure that there should be. The amount of money involved should be much less for a retail store with two or three employees.

Are we going to discriminate against that type of business, as opposed to a manufacturer that employees 2 or 3 people or 10 or 20?

I don't feel that a discrimination needs to be made there.

Mr. **English**. Any other questions?

Thank you very much, Jack.

I appreciate your testimony.

Mr. **Dickey**. Thank you, sir.

Mr. **English**. Our next witness is Mr. Sam Eberly, Chairman of the Farm Credit Council in Washington, DC.

Sam, we are happy to have you before us today.

STATEMENT OF SAM G. EBERLY, CHAIRMAN, FARM CREDIT COUNCIL

Mr. **Eberly**. Thank you, Mr. Chairman.

My name is Sam Eberly. I am here representing a number of different groups, but more in particular, that of the Farm Credit System as being the chairman of the FCCA.

I serve on the Farm Credit Board of Wichita, and as chairman of the Boards of the Farm Credit Council, the Trade Association of the Farm Credit System, and the Farm Credit Corporation of America.

We believe the No. 1 goal of all the participants in this process should be to maximize the necessary services to rural communities and businesses.

We believe, Mr. Chairman, there is enough work here for everyone to be involved in.

We think there is a role for everyone. I would be remiss if I did not say that the Farm Credit System would like to have the opportunity to participate in any new rural development initiative.

Through our network of institutions, we have been an essential provider of credit and related services to rural America.

Our charter mandates that we provide our services to all areas of the country. Thus, we feel the delivery system is in place.

If you and your committee would concur that the Farm Credit System should have a role in this new rural development initiative, we also would like you to know that the current Farm Credit authorities limit that role.

Attached to our testimony this morning is a list of some of the limitations. They are not total, but they do give you an idea of some of the changes that might need to be made.

It is obvious to me that the Farm Credit System has had a very important role in the development of rural America. In its most basic form, I feel this role has been that we have been able to provide a conduit for the capital needed in rural America from the Nation's money market to rural areas.

We finance the most creative group of risk takers in the country, and that is the American farmer. Institutions have provided short-term operating loans and long-term real estate loans.

We finance complex, family-owned agribusiness. We are in the rural electric and telephone systems, we finance cooperatively organized rural water systems, large agricultural cooperatives that rank well up on the list of Fortune 500 companies, as well as the small local cooperatives that own only one elevator in the country.

When the commercial banks in our Nation moved away from working with the GSM International Financing Program, the Farm Credit System worked with and began to finance U.S. agricultural exports in the developing market. The System has over $2.5 billion in its international loan portfolio.

Earlier this year the Farm Credit Council's membership adopted a policy statement on rural development. This resolution reads, in part, that the Farm Credit Council will support legislation to preserve and enhance the role of system institutions in financing credit-worthy rural enterprises both community-based and private, while maintaining the existing farmer and farmer cooperative ownership of the credit system.

Based on this resolution and our historical commitment to financing of rural America, we would like to offer a few broad ideas for consideration as you move forward with this legislation.

Rural communities are struggling to install waste disposal systems to meet the Federal health and safety standards. These local infrastructure projects require there be a lender capable of offering fixed-rate long-term loans. That intermediary between the complex financial marketplace of Wall Street and the rural community could be the Farm Credit System.

Rural communities are seeking alternative financing sources to the current government Federal loans or grants. System institutions are very interested today and willing to finance credit worthy community infrastructure projects which may never be funded by Farmers Home Administration because of the backlog of applications.

There is a buzz word, and that is "value added." Many opportunities exist for farmers and others who seek to add value to raw agricultural products through the processing and marketing system.

Financing this activity is entirely compatible with and very complimentary to the System's ongoing legislation programs. The Farm Credit System can and will support and enhance the sound economic development of rural America.

The following are some of the strengths which I believe the System brings to this process:

We have a long established track record in meeting the highly diverse complex financing needs of farmers that are cooperatives and utility lending. We have experience in financing rural home loans. We have skilled loan officers and appraisers.

We have an established delivery system which includes some 267 locally-owned associations which serve all regions in the country, and a very established bank for cooperative structure which serves eligible cooperative borrowers throughout this country.

A total delivery system second to none in rural America. We also have procedures in place to minimize the risk, based on cash-flow lending, proper collateral, and those loan demonstration procedures.

Mr. Chairman, while we examine ways in which the Farm Credit System can more effectively assist and stimulate rural economic development, we will not jeopardize any existing services to its current customers.

We believe lending to a broader base of customers will help diversify our assistance portfolio and strengthen each institution's ability to withstand the inherent economic cycles and problems that we have in agriculture. To the extent the system can help strengthen the rural economic economy in general, agriculture will ultimately reap those benefits.

We do not believe Congress should invent a new bureaucracy to serve rural America. We feel the Farm Credit System can help to meet the objectives which Congress intends.

No other institution has a greater stake or is better positioned to assist in carrying out the policy for development of rural America, and we stand ready to help.

In closing, Mr. Chairman, I would commend you on a statement you made in the June 7 Congressional Record, where you said that of the Congress, regarding rural development, we can offer the help, we can offer the assistance, we can provide the tools with which those communities can grow. But the ultimate success or failure will be up to the people who live in the rural communities of America.

I am here today to say that the Farm Credit System can help. We can provide the assistance and we can provide the delivery for rural development if that is the desire of Congress.

I will be happy to answer any questions.

I appreciate the opportunity to be here.

[The prepared statement of Mr. Eberly appears at the conclusion of the hearing.]

Mr. **English**. Thank you, Mr. Eberly.

I agree that ultimately whether a town is going to grow and prosper will depend upon the people in that community, and not on the Federal Government. The Federal Government can offer a helping hand, but the success will have to be determined by the people who live in the communities.

With that in mind, How do you suggest we determine which communities the Federal Government should help?

How are we going to know which group a town falls into? This town is a group that, obviously, is trying to help their community grow. They are trying to do things for their community, and they need some assistance. If they get the assistance, we have good reason to think that community is going to prosper.

What do you do with the other town that doesn't appear that it is going to have a potential for growth?

Do you tell those people, well, that is too bad, we are condemning you to a situation where you have no future?

Mr. **Eberly**. I would answer that by saying that I would think any of those initiatives should probably be the No. 1 focus, would be that local commitment to any project.

I wouldn't know how you would determine which would make that commitment and which would not.

I would feel that, if in your example, one community being totally involved in the project and wanting to make the business or whatever it is that they are projecting to work, then any lending institution would look at that project and consider that local involvement in the project.

The other example you used, where you had a community that, maybe, was not as locally involved and not had that local commitment to that project they wanted done, I think that is a credit factor that would be weighed into a lender's decision as to whether you participated in that project.

Mr. **English**. We have had a number of our witnesses that have pointed out that there are a lot of different programs available. Some of these programs have been around for 50 years and deal with rural development.

It is a piece here and a piece there. It is scattered throughout the Department of Agriculture itself.

There is no reality, pulling all these pieces together and seeing in total what they do and whether it is a complete effort, whether it gives us an opportunity to deal in some manner with all the problems, or at least have a chance to deal with some of the problems.

Do you think part of this rural development effort we are putting together should deal with pulling all these different pieces together under one tent, giving us an opportunity to look at it in total as opposed to individually?

If we have a community that needs assistance and may demonstrate that it has a potential for growth, should we approach that community saying, "if you need a new water system, we have a program that can help you?"

If you need housing, we have a program that can help you. We have got this and that. And look at a complete package, dealing with a community in that manner, as opposed to the piecemeal approach we have had in the past?

Mr. **Eberly**. It kind of gets to be the chicken and egg concept. Obviously, to attract business or industry or small-family operations into a town, they need to have those amenities that will support the lifestyle needed in that community.

A total package would be very practical. If you don't have the proper water facilities and sewer facilities it is going to be difficult.

If the community will make that decision, that it is totally committed to the total project, that would seem to be the most practical approach to it.

Now there is a lot of other, as you see rural development, first, there is the aspect of the community, but there are many things in our part of the country we are seeing farmers, small businesses trying to start up. That is part of rural development, too.

Those types of packages may not be within the boundaries of the general town or community that you are talking about, but they do enhance that community, which will bring—which then you are going to need the sewer and water and other amenities that go with it.

Mr. **English**. I guess that comes down to, should part of our approach consideration be based on the question of simply saying, we are going to pull all those pieces together. We can deal with virtually every infrastructure problem a community may have.

We can provide that community with newest, most modern, up-to-date communications system, new sewer systems, and new housing.

We can assist their schools by making sure the children in those schools have access to every program that is available in a major metropolitan community. We can deal with all that, but we have very scarce resources.

Should we take the approach then that we are going to go out and try to do that for every community no matter what its size is throughout the United States, or are we going to have to say because of the very limited resources we have, we've got to start trying to prioritize. Therefore, this is available for all communities throughout the United States, but those communities, first, must take that initial step in having that available as part of their sales tool.

They are the ones that are going to have to demonstrate—we have this particular business that would like to come in if we can have this done. That puts our community in a position that it is going to be economically viable. We are going to be able to grow and survive these wild swings we have seen in agricultural prices.

While our community is still heavily dependent on agriculture this gives us a chance to survive.

How do we approach that?

Mr. **Eberly**. Mr. Chairman, as we—the Farm Credit System—I believe, would be in a position to answer every one of the concerns that you have.

We have preference in every part of the country. I am not sure that the total financing package—as I said in my testimony, there has to be, there is enough in this business, enough people, enough of a role to play that a lot of people can play it.

I am not sure one financial institution can do all the things you said in providing that total credit to every community on a broad-based basis.

I would be hesitant to say any person would want to say this community doesn't get the project, or this doesn't, or you are not qualified for it unless they can show a supportable need and a desire to go ahead and get it done.

I guess I am at a loss, Mr. Chairman, as to whether the Farm Credit System could make a commitment to you that we would be involved in every community project.

I think on a sound business, the safety and soundness issue, the way that you would look at your bottom line and it wouldn't make any difference what lender it would be, these lenders are going to have to go into this with the commitment of the community, and a commitment that the ultimate goal of making that community prosper, is going to be enough generating of income to make all the makers and people that have the role in that project, make it a worthwhile venture for the community and the lender.

Mr. ENGLISH. Mr. Coleman.

Mr. COLEMAN. Mr. Eberly, I thank you for your paper which indicates your willingness to work and be a player in this area of financing of rural development. That is very good.

Let me be a little bit of the devil's advocate. Some say the Farm Credit System is going through difficult times.

Congress has had to address these problems with the legislation we passed in the last year or so. Your mandate, your charter, your restrictions are, and have been, traditionally farmer oriented, directed toward farm production and ownership.

To venture out into new areas, risk four areas, let's say, perhaps, is not, would not, be the prudent thing for the System to do, because of past problems and continuing problems that we know exist.

I think that may reflect the attitude of the Farm Credit Administration to a certain extent. I haven't anything on record, but I assume that may be the case.

You are representing the System and apparently have a different view. I know that you must have thought a lot about this before you made your testimony.

Please tell us then why you feel so soon after congressional bail-out, if you will, the Congress should provide you these additional credit opportunities? Would it behoove you and the system to proceed along these lines from a purely economical viewpoint as far as how you operate your banks?

Mr. EBERLY. First of all, let me say that until we get down to having very specific proposals, we all have a general idea of what community and rural development may be. But your idea and someone else's idea may have some differing approach.

Since the 1986 legislation, as an example, the System—and we have to remember the bank for cooperatives is part of the Farm

Credit System—they have been very active in doing the rural water type loans.

They were authorized specifically in that act to do it. If my memory serves me correct, they are somewhere approaching $90 billion, I believe, in volume that they have put on the books in that particular business.

We feel the System as a whole has that expertise in the system, including the bank for cooperatives. We feel in rural development it may be in addition to the hospital, the infrastructure of the local town or the local community, it brings with it a lot of other things that make that town prosperous.

The comment I made about the "value added" approach and the System through the Farm Credit Bank, the long- and short-term lending side of that has been making rural home loans since the 1971 amendments were put into place.

I believe there are somewhere in the neighborhood of 43,000 rural home loans now in the System. We have that expertise.

We have an expertise in financing rural agribusinesses that, as an example, a water well driller, someone who erects farm buildings on farm properties. We can loan to small processing facilities.

But there are limitations and reservations that limit us, that we can't go the whole way. We can put them into business.

As an example, a farmer on his farm has an idea about feed processing, and he has a feed processing facility and it goes pretty good. He begins to prosper and process a lot of feed.

But the requirements say that 20 percent of the product has to be his before it qualifies for a loan. And you can move into the area then where he qualifies at one point.

Then as his business prospers, it moves us out of the business. So there are some technical things that can be done that the System has expertise in and we are doing.

We feel those are the things that we can add to this process and help with some very minor changes or provisions to us.

The question is good. We feel that there is another element that probably should—the chairman mentioned it to the other witnesses about the Farmer Mac. Presently if it, if this type of rural development lending can be sold through the Farmer Mac and the Farm Credit System is very much interested in participating in the Farmer Mac Program,, we feel that we would like to have, again, the authority to go ahead and make those loans and be able to sell it into the secondary market.

We feel we do have the expertise, but there is one thing we want to remember. As we begin to get into these new expanded authorities, that some of you may decide are legitimate for this rural development, we can develop the expertise within the System and help go on.

The important thing we want to remember is since the 1987 act, we as a system want to look forward. We have a regulator who is an arms length regulator.

We are all learning our role. The safety and soundness issue should be that of the regulator to put us in or out of these types of business. The regulator should be looking at that very carefully also.

Mr. **Coleman**. Would you have to have a guarantee like the previous witnesses indicated?

Mr. **Eberly**. We have not been. We do use the Guarantee Program. But we don't feel if you get—we would not have to have the Guarantee Program.

However, if we are going to put this package together, as the chairman indicated, and begin to look at it as a package, if the guarantee would be on one segment of the lending authority to some other institution, then we would like to have the guarantee package be a total package that can be utilized by the Farm Credit System and other lenders who might participate.

Mr. **Coleman**. One more question. The way you sell your bonds on Wall Street, do you segregate those by housing loans together and then another package together?

In other words, if you were to get into this field, you would be creating a new package that would be sold on Wall Street specifically for rural development efforts?

How would you do that?

Mr. **Eberly**. No. That would be financed through the traditional source through the consolidated Farm Credit bank bonds and systemwide bonds.

It would be in the total package. Then the portfolio mix in your asset liability, your duration mix, would obviously play an important part in that with the long-term fixed rate you are going to need in this type of program.

Mr. **Coleman**. Because those are riskier loans, would they not be—could there be some who would criticize that by saying that interest rates would go up to farmer borrowers because of that?

Mr. **Eberly**. You would have that few kept in the System. The point I made with the Farmer Mac Program, then you segregate those loans into pooling packages that could be sold into the second, to enter that Farmer Mac Program.

Not all of them would qualify, nor would you want in all cases to sell them.

It would be a matter of the respective institution's liquidity.

Mr. **Coleman**. Thank you.

Mr. **English**. Mr. Harris.

Mr. **Harris**. No questions, Mr. Chairman.

Mr. **English**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman.

I just want to echo, as strongly as I can, the caution suggested by Mr. Coleman in regard to your testimony and to this whole issue.

I have to suggest if this testimony had been in front of us 2 years ago when we were trying to serve the Farm Credit System, I think we would have done it.

I would have said, OK, if you want to be a bank, be a bank. We wouldn't have had the Federal Government involved for any financial institution outside of the Farm Credit System who suggested you ought to live and die by the same standards.

Many of us came to your defense because we said the Farm Credit System was unique and had a very specific mission. Therefore, we had a different obligation.

I would support the kind of initiative you suggested here in terms of expansion unless you are willing to undergo the same kind of regulation, capital standards and everything else the other private sector, financial institutions have to undergo today. I encourage you to go back to your membership and indicate there is a strong concern by a number of members in this committee, not only in going in this direction, but even suggesting that you go into this direction brings into question whether or not our actions in the last few years is correct.

You are welcome to comment on that. It is meant as friendly advise from someone, as you know, who is quite involved through most of the 1980's, in trying to help save the System.

Mr. EBERLY. We appreciate that. We do appreciate your support. I think your point is well taken.

But the point that I would still like to leave with you, that we are involved in whether we want to classify it as rural or community development. Every farm loan that we make, every rural housing loan that we make, every co-op that we finance on Main Street, smalltown USA, or large regional cooperatives does have an effect on the income and well being of that respective community.

I respect your comments. We are, though, still involved in agriculture.

Although it may be narrowly focused in the agricultural segment, there are a lot of things that we can do with a few expanded authorities and the authorities that we put in place and are adequately checked on safety and soundness issues that can still assist this committee in its deliberations with rural development. That is the point that we are trying to bring forward—that whatever we can do to help—we are here ready to help.

We do have the way to deliver it. If you feel, you, with this committee can give us some authorities to continue the roles we are playing now with some expanded authorities in those very same lines.

Mr. GUNDERSON. My comments are not directed toward the bank for cooperatives. I think there is some merit.

I would encourage you to focus your initiatives much more narrowly on the bank cooperative.

Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you, Mr. Gunderson.

Mr. Grandy.

Mr. GRANDY. No questions.

Mr. ENGLISH. Sam, I think the question was raised in regard to the use of secondary market. I guess what it comes down to is that given the work that would have to be done, even with those rural communities who are progressive and hard charging, had the opportunity to go out and grow either starting with some kind of cottage industry at home or, perhaps, enticing some small industry to move into their community. There are many communities out there that are going to fit into that category.

It is going to take a great deal of money to deal with that kind of problem and certainly to give the rural development a boost and a chance.

I don't think that there is any one organization that will be able to handle that kind of an effort too, particularly over the next decade.

So there is going to have to be a great deal of growth in that regard.

Can you tell us more specifically what you think in the way of resources that the Farm Credit System might have to be able to offer in helping to finance this kind of an effort?

Mr. EBERLY. The first issue, obviously, that comes to mind is, that we still have to raise and be in line with the capital requirements that were given to us in the 1987 act. And whether a 7-percent capital requirements, as now stands in the System, any dollar that you put on, you have to adequately capitalize that loan.

The first concern we would have in any business venture, whether it be making a farm and ranch loan to a farmer, whether that or this Community Development Program, would be as to how you can develop the capital through the earnings on this respective loan.

To answer your question as far as dollars themselves and what the System would be willing to put in, we would be putting in the capital—we would have to put in the capital it took to make every loan.

What that is depends on the amount of dollars that you would be involved in.

As far as writing a check to a source and then begin to develop the seed capital, this outside investor-type money, we feel that would be more of the obligation of the community as a whole.

They begin to raise their funds and their total community involvement to raise the capital that it would take to put the margin in the loan that we could participate in.

Mr. ENGLISH. Assuming everything went gang busters, everybody is enthusiastic, working hard, putting up seed only, getting tremendous demand and financing, and assuming that the assessment with regard to these loans is that great; How much can the Farm Credit System be expected to come up with to deal with that kind of demand if they are authorized to do so?

Mr. EBERLY. If your question is, Can we get the money? the Wall Street community is, obviously, the place that we go when we sell our bonds to raise that money.

The secondary market is going to be into the same process. You mentioned that facility.

The money from the lending source in many cases is going to come from the Wall Street community.

Mr. ENGLISH. You say under those circumstances there would be no limit to the amount of money that would be available?

Mr. EBERLY. That is correct. You still would have your collateral requirements imposed on the System today as though what assets you have that would go toward the collateral. That is what we base our—as the total system as we issue the bonds, obviously, Wall Street looks at your financial condition and the collateral requirements that have been placed on us as to whether we have adequate collateral to raise those bonds.

Mr. ENGLISH. Then give me the requirements that you see as being the requirements to put us into that kind of a category where we would be heavy in demand?

What is it that would be expected for this kind of a loan? What needs to be done?

Government guarantees, has that got to be a part of it?

Mr. **Eberly**. That should be a part of the package.

Mr. **English**. Mr. Coleman raised the question of whether it needs to be 90 percent or less. What do you think?

What percentage of guarantees does it require?

Mr. **Eberly**. We have not as a system been heavily involved with the Farmers Home Administration Guaranteed Program.

We do a lot of that, but it is not in the major amount of dollars.

The bank for cooperatives has been involved in the GSM Program for some time.

I am not sure that the System would—today I could not tell you whether we would agree to an 80-percent guarantee or whether we need a 95-percent guarantee.

I would be glad to research that and get back with you.

I do not feel comfortable in making that commitment.

Mr. **English**. I think it would be helpful to have the assessment of the Farm Credit System. I want to say this to other lending organizations as well, What would be required by the Government to make this kind of loan extremely desirable? That would give us some kind of feeling where we are.

Mr. Nagle.

Mr. **Nagle**. I know you are in the business of loaning money, but I am kind of curious about—I am not sure that just simply—and I maybe taking you beyond your expertise—but I am not sure that making more loans available in rural America is the problem.

I think there is candidly going to be the need for grants or, in reviewing the testimony of the first witness, it is going to be some need for interest buy-downs.

I don't think we can do it by promising to loan more money out there. I don't think that is totally the problem.

Low interest loans, but that is going to cost some place—How do you agree with the premise it is going to take grants, too?

Do you have any thoughts on where we could find that money?

Mr. **Eberly**. You are asking about the grants?

Mr. **Nagle**. Yes. I am asking, Do you think we could do loan programs, revitalize rural America with loan programs or will it take some cash?

Mr. **Eberly**. I would agree, Congressman. Obviously, the bottom line approach, if a community is going to be successful, the more margin and the less interest they have to pay on their respective, this total package that we have been talking about here this morning will make that a successful program. And I don't think there would be any lender around that would not be more involved.

And actually when it got down to figuring out whether there was going to be a profit in this enterprise, whether they were going to be able to make their installments, service the debt, the smaller the debt load, the more likely the business will survive.

If we grant the low-income, I mean the low-interest rate, the interest rate buy-down program would certainly enhance that program.

Mr. **Nagle**. I noticed in your testimony you said that there is between $20 and $40 million that is going to be needed for rural sewer and water moneys. You also used an analogy of a chicken and an egg. I would like to take that.

You can't have rural development if you don't have sewer and water. On the other hand, at the current level you don't have the money to repay those loans.

The fact that the loans are available doesn't mean anything because you can't repay the loan if you can get the loan. Is there a fee generated to the Government or the Farmer Mac?

Mr. **Eberly**. Is there a fee generated to the Government?

Mr. **Nagle**. Yes.

Does the Government get anything for guaranteeing the farmer the secondary market?

Mr. **Eberly**. I can't answer that. There may be someone behind me that could.

The indication is the Farmer Mac generates a fee, but the Government does not get money on the Farmer Mac. It would be a margin plus the Farmer Mac Program.

Mr. **Nagle**. I am a real proponent of Farmer Mac because I thought it brought lower competitive interest rates out. We kept seeing figures of 80 to 100 basis points with a Government guarantee behind it.

I am still searching for the—I am kind of searching for the capital because I think it is going to take a combination of loans and grants in order to revitalize rural America.

I am wondering whether there has been any study at all, if there was a slight, for the Government guarantee of the secondary market there was a slight fee to revert it to the Government.

In fact, it is a revolving type of fund that would serve as some sort of capital for us.

Mr. **Eberly**. Make a future seed money type of proposal, whether it be money there to use?

Mr. **Nagle**. That is correct.

Mr. **Eberly**. That would be a possibility.

Mr. **Nagle**. Yes. I don't know if there has been any studies done on it. To kind of bring this around to a conclusion, and I know I am catching you cold with it, but I would be interested in the thoughts of your organization or the thoughts of the Independent Bankers Association, the previous witness' testimony, as to whether we would find almost a self-generating capital fund for grants to go in tandem with loans, whether it be to businesses or whether it be to local communities or whether it be to State governments and whether that could be utilized in tandem with matching funds from the State, or matching funds from the community to get some of these things into more affordable packages.

I think to just simply pass another loan program, I would leave the ones we got out there. We are not using them anyway.

Mr. **Eberly**. I would be more than happy to respond to your question. We will try to get back with you.

Mr. **Nagle**. I am almost thinking out loud. I think down the line we are going to need some money from the Federal Government, even if it be only seed money.

Thank you very much.

Mr. **English**. Any other questions?

Sam, thank you very much.

We appreciate your testimony.

Our next witness is Mr. Rodney Nilsestuen, executive secretary, Wisconsin Federation of Cooperatives.

You are testifying on behalf of the National Cooperative Business Association.

Mr. **Gunderson**. Mr. Chairman, I have to work on your Norwegian a little bit. You are dealing now with 200-percent Scandinvians, Gunderson and Nilsestuen. We actually even come from the same county.

Mr. **English**. I want to assure you that as far as I am concerned, that is Rodney—a Norwegian joke.

STATEMENT OF RODNEY NILSESTUEN, FIRST VICE CHAIRMAN, NATIONAL COOPERATIVE BUSINESS ASSOCIATION, AND CHAIRMAN, NATIONAL RURAL COOPERATIVE DEVELOPMENT TASK FORCE

Mr. **Nilsestuen**. We appreciate the opportunity to appear before this committee on this important topic. As was noted, I am Rod Nilsestuen.

I am executive secretary of the Wisconsin Federation of Cooperatives, a statewide trade association of all kinds of co-ops in Wisconsin.

Today, I am here as the chairman of the National Rural Cooperative Task Force, and also representing the National Cooperative Business Association.

We assembled the taskforce because co-ops have a very direct interest in rural development and because of the diversity with co-ops being not only in every State, but almost every community and county, we feel that we have a major role to play here.

I think we all know the problems facing rural America. Rural hospitals, small businesses, local schools are finding it more difficult to compete, as has been noted here numerous times this morning.

If you would imagine the possibilities. If you took—as an example—if you took 20 local hospitals and formed a rural hospital co-op to share expensive equipment and expensive medical specialists that were previously unavailable, or if you imagine for 1 minute putting Main Street business owners together in a purchasing co-op and buying in volume so that they can, could compete with Wal-Marts and K-Marts that they have to deal with, or if you could imagine rural school systems getting together in a telecommunications cooperative to provide interactive cable education to rural students who otherwise wouldn't have that opportunity, you can, I think, get a glimpse of the kinds of things we are talking about.

These aren't imaginary or future examples. They are actual examples of how co-op business is providing basic services right now. Each one of those examples exist in my home State at this moment.

We hope that the proposals that we are presenting here today, and I am trying to summarize in capsule fashion, would help us to do that throughout the country as well.

I think it is well recognized that the principle, the cooperative model is an ideal mechanism for overcoming the principal competitive disadvantage that rural businesses faces—fewer people, lower population densities spread over a lot of miles.

By putting together and aggregating capital, people, business, and inputs into large enough units to be economically competitive, cooperatives can work. That is why 50 years ago cooperative development was a major component of the Federal and State rural development plans.

Through the combined Federal actions of the Agricultural Marketing Act of 1929, and the credit union enabling legislation that put in place the extension system, farm credit, REA, we created a system—and that is the important work—a system throughout the Nation that was locally-based, democratically controlled.

But it was networked with many local organizations put together into large enough units so they could have the size and resources to compete.

So you do get the Union Equities, and the Sunkist, and the Mid-America Dairymen, et cetera.

I don't think anyone in this committee would dispute the impact of this organization on rural America.

Congress and the policymakers 50 years ago were astute enough to recognize that it was not only important to provide the technical start up and financing to start up those organizations, but they needed to put in place systems for continuing information, education research, and assistance, if those co-ops were to survive.

In almost every State in the country there were land grant universities that did great things. Unfortunately, many of those resources have withered away and with them the innovativeness and the capacity of cooperatives to innovate and stay ahead of new problems.

Fortunately, in Wisconsin, we have been able to maintain a strong system that does 10 billion dollars' worth of business each year, but we have been able to provide co-op responses to the major needs facing rural communities:

Health care, housing, education opportunity , child care, employee ownership, senior care, and competitive Main Street businesses.

Four years ago, with the help of a small seed grant from the State of Wisconsin, matched with investments from the co-op community, we established the Wisconsin Cooperative Development Council.

The council, an affiliate of my cooperative trade association, operates largely on a fee-for-service basis, providing feasibility studies, business plans, organizational help, financial packaging and market and other management assistance to people who want to form new co-ops and those that want to expand or diversify.

We combine this with the extension, education, and research capacities provided by the University of Wisconsin, through the university center for cooperatives, to create the climate and the resources necessary so our cooperatives can provide new services, grow, innovate, and meet the emerging needs of rapidly changing rural communities.

In those 4 years we have had dozens and dozens of successful projects. We think that track record in Wisconsin combined with the longer one is a good model.

Through intelligent use of that system that we can leverage with a very modest amount of Federal investment a lot of kick in rural development.

In specifics I am talking about three or four things. Most of the legislative proposals we have seen contained significant technical assistance titles.

To our minds the best of these proposals contain maximum flexibility and take the form of matching grants with State and local government that would be available to entities on a competitive basis.

The reason that we say that is because conditions vary from State to State and from region to region.

We need to be flexible enough to work with whatever kind of organization, public or private, that is best equipped and is committed to providing technical assistance of a long-term basis.

Our experience in administering an assistance company in Wisconsin leads me to believe that approach not only works, but it is cost-effective, because it uses a human capital and expertise, rather than putting a lot of Federal dollars into one specific project.

What you do is develop the capacity to do hundreds of projects year after year. Our experience has shown there is a great demand for the need for specific technical assistance for co-ops themselves.

We would urge cooperatives be included in any technical assistance provisions and a portion of such funds be earmarked for cooperative development.

For all the reasons I already stated, the taskforce recommended the establishment of a national center for cooperative research, education, training, and development, it would be a focal point for the research, and study and education which is so necessary if cooperatives are to provide the innovation and service rural people and communities need.

Centers should be based at a land-grant institution which has a commitment to cooperative enterprise.

In the important credit area that has been discussed significantly this morning we would only say this. We think there is a significant opportunity to finance much rural business expense and community development through expanding the lending authority of the banks for cooperatives and the national co-op banks and credit unions and rural electric cooperatives.

The effectiveness and reach of such initiatives would be enhanced if they included selected loan guarantees to provide the business planning and startup capital, which are so very difficult for a new business to get their hands on.

Those really are the essence of and the basics of things we think are necessary if the cooperative community is to be well used.

We appreciate the interest of this committee and look forward to working with it.

[The prepared statement of Mr. Nilsestuen appears at the conclusion of the hearing.]

Mr. English. I appreciate your testimony, Rodney, on that.

We have talked about financing made available to education and communications; and plugging in these various aspects into a rural community.

One area that we have not discussed very much and which you have touched on here, is that there is a great deal of knowledge in most rural communities in knowing what is available and how to proceed.

How do we develop our community? They may have all the desire in the world, but unless they have the knowledge, it doesn't do them any good. They simply spin their wheels.

I see a lot of communities in my district and around the country that are doing just that. They are not really getting anywhere with the activity they are creating.

Most of it comes down to basic lack of knowledge, lack of understanding of exactly what needs to be done. There is not much in the way of help out there for these people.

There is no place for them to go and get this information. They don't even know what programs are available to assist in a particular need that they may have.

They certainly don't know how to deal with the paperwork that is required for a Federal program.

Many times they are overcome by the whole thing. Should an important part of any rural development program, in your opinion, be a way of either obtaining information for communities incapable of meeting the requirements for Federal programs or maybe even State programs?

Mr. **Nilsestuen**. I don't think, Mr. Chairman, there is any doubt about that. I tried to focus, as you noted, my testimony specifically on the cooperative role rather than the entire question of rural development.

Really, our suggestions exactly parallel what we believe is needed in rural development generally.

I had the mixed pleasure 5 years ago of chairing a Governor's committee and commission rural development. Witness after witness appeared before us reassuring what we were doing in Wisconsin on rural development.

I continued to ask one question, Where was this done in the State of Wisconsin?

Many good programs almost without exception, 80 percent or more of them were done in the larger communities even though in many cases the programs were designed originally with the intent in mind of being for rural areas.

Why was that true? Basically for two reasons.

First is the information wasn't there. Second, if it was there, the capacity to put it together into packages that would make sense—in putting businesses together.

The bigger towns, towns of 50,000 and above, would have development people and business developers are the folks that can access these programs.

What we are suggesting here in the cooperative context but I think also holds true in the general, is we need to put—there are a lot of resources out there.

In many cases they are not as well coordinated as they might be. What is needed is the informational base.

We have had for many years an extension system, pluses and minuses.

In some States now extension has taken a look at the rural landscape and put a lot of emphasis into business development and local development agents. In other places in the country, they have not done that.

Where they have not done that they take away that informational base to tie together communities. You can't, in a town of 1,000, and another one of 500, have a business developer in every one of those. But you can in a several county area. That is what extension's real mission was, is information assistance, education.

Extensions can't cut deals. It can't put financial packages together.

That is where you need a technical assistance development capacity. That is what we do in our own shop.

We put together deals when people know it is there. They have to be good, sound business ones. We have created a lot of jobs and a lot of new business opportunities that just would not have been there.

The demand has always been there. In many cases the financing was there if you knew how to put a complex package together.

But the ability to put all the parts together in a focused way was not. That is why we believe technical assistance is an absolute problem, but if the Feds are going to do it, it ought to be done in a way that is flexible enough to work in Oklahoma, or work in the State of Washington, or work in Wisconsin, and we ought to see to it States share in this, do some matching grants and revolving loans, so if we do good business, it keeps turning around, and around, and that the locals share in that process.

If we get people to buy in, you get sound projects. If you don't, it lasts only as long as the money lasts.

Mr. ENGLISH. One last question.

What do you do with those States, such as my own, that have had about 8 years of extreme difficulty? They also have a severe budget crisis and no money.

How do you distinguish—aren't you inviting a situation which those States that have the money are the ones that are going to get the help and those States that don't have the financial resources are not?

Mr. NILSESTUEN. I am hesitant to switch chairs with you here? It is more fun to give advise than to craft programs.

But I would guess that a well-crafted Federal response would need to take into account severity of need and the available tools that are there. I would be hesitant to go the whole mile on that and say that it ought to be entirely Federal simply because there is some real benefit in the discipline of making choices between ideas that are good and projects that can survive over the long pull.

And, I guess, in structuring our own effort in Wisconsin where we used a lot of fee-for-service, that one thing, can this project survive as a business? We do work with minority communities both in large towns and in the northern part of our State, but we have to make those judgments, because, after all, we are not doing anyone a great, huge favor if what we erect doesn't have permanency. That really, we think, is the genius of the co-op part of this institution.

We are not the whole answer, but part of it is that you have local involvement, locally based, that can be networked over a greater area.

Mr. **English**. Mr. Coleman.

Mr. **Coleman**. I think you are right that you should not have one town competing with another and duplicating these efforts. A regional approach is more appropriate than the more localized one.

What I envision and what I try to put in legislation would take that concept—working through the States, because the States should have an overall plan of rural development.

If there are Federal funds it ought not to be a scattered-shot approach. It ought to be well-targeted and defined exactly how it fits into the general scheme of things in a particular State. They should know where the effort needs to be directed.

They ought to know how it should be done. From that standpoint, they can help set the stage for any Federal funding and programs we might come up with. I sense that is what you are saying as well.

Mr. **Nilsestuen**. I think there is a real role for the States. I think many of them have already exercised it and taken it here.

I think, again, as in response to the last question, one has to take a hard look weighing what you are going to get for your investment.

We would counsel that you ought to be quite careful not simply to make a block grant approach, to let the States help balance their budgets or do other things, but it ought to be very targeted to providing honest to God rural, real rural development.

The States do have—I think you are absolutely correct. The States do have a very significant role in here.

Development is by definition always local. If you start from that premise and then try to figure out what the components are that you need to get continuing development that makes sense over the long term, and is sustainable, I think you come down to these three or four basic things that you need.

Mr. **Coleman**. Your center for cooperative research is similar to what I would have not just for cooperatives but for any nonprofit organizations to compete for grants that can apply technology to the real world problems in regions of the country. It would open that up for cooperatives, as well as other nonprofit organizations that might want to participate, and also would be at land-grant institutions.

We have those already set up, so I think we are very close in those concepts. I think that we can work together in trying to expand it even further beyond cooperatives.

I know that is why you are here to represent those interests. I think they certainly ought to be involved and would be under our legislation.

I think it is a good idea. If we are going to get rural America back into the main stream we have to plug into the economy. The way to do that is through providing some utilization of technology that we have not used in the past and look toward new ideas in marketing and manufacturing and address real issues. That is not just academic issues but real issues. That is what you said in your testimony.

Mr. NILSESTUEN. We appreciate those comments.

After having spent almost a decade in this area, I guess one of the realizations I have is there are not many new ideas. Looking at what really worked over the years in our sector, in the cooperative sector—and that is what I was trying to do in rapid-fire fashion—look at the framework that the Federal Government through some enlightened decisions put in place 50 years ago and more, to establish a structure did provide some startup funds and did provide technical assistance.

This is the thing that is so often missed even in our own community, is they provided that university and extension base continuing research and assistance. And I think it would be a mistake to tie those two things into the same entity because university-based operations don't make deals, can't do the actual pulling together of the bankers and others to do a particular deal. That is not their function.

But they have an equally important longer role. At least what we like to think about, we like to think in those actual sort of transactions, that you need basic start of credit, but that technical assistance on one hand to do deals, and you can structure that in any dozens of ways, and I would guess it would be around the country, but also the provision of centers that would provide for the continuing thought and innovation are extremely important.

I could bore you for hours with specific examples of individuals and people from around the country who have played key roles in this process.

Mr. COLEMAN. Thank you.

Mr. ENGLISH. Mr. Nagle.

Mr. NAGLE. No thank you.

Mr. ENGLISH. Mr. Gunderson.

Mr. GUNDERSON. Mr. Chairman, if I didn't ask a question, he would wonder if I was feeling well.

First of all, though, let me say I want to publicly commend you on work you have been doing with the federation back there.

I think you are one of the few people who have helped direct that whole movement in a positive sense during the 1980's.

Mr. NILSESTUEN. Thank you.

Mr. GUNDERSON. You are to be commended for that.

How committed are you to the land-grant university.

Mr. NILSESTUEN. We are doing a lot of things that would relate to that. I think it ought to be a State university.

Whether it was a land grant or not is not an absolute must. The advantage of having it tied into what most States is the land grant system and having the reach is important.

Our center, which has got 25 years of experience in Wisconsin, is a multidisciplinary center. We don't try to hire and have corps staff there, but we have a corps of co-op specialists.

If we need to go to the business school or the management institute or agricultural economics or dairy science, whether it is in, in our case, in Madison or Rural Falls, or any of the other 23 universities in the State, we can utilize it. That is the strength of that approach.

What we are suggesting here is those centers ought to be regional. There is a number of examples.

In water resources, particularly in the C-grant centers, they are among the best models.

One could look at them to see what some well-directed research—what impact it can have. We would suggest that that model is a good one.

We have seen interest from half a dozen States in the last several years in establishing these sorts of university-based centers for exactly these kinds of reasons.

Mr. **Gunderson**. A second area I would like you to comment on because I think it presents some challenges to us here in the committee, in the area of credit you suggest that a number of different options ought to be looked at, the bank for cooperatives, obviously, credit unions, the Rural Electric Program.

I am a big supporter of the whole Rural Electric Program, but we continually face challenges to justify this. I am concerned if we become the ones who advocate expanding the credit portfolio of rural electrics, we may be guilty of our own demise in that we will have just justified the role of rural electrics that no longer is necessary.

You want to comment on that at all?

Mr. **Nilsestuen**. A couple of things in response. One is of the two dozen different kinds of co-op businesses that we work with, there is probably no sector that has more self-interest, nor more capacity than do the rural electric co-ops in this area.

Because they are spread out across counties and for all the obvious reasons and they have played very key roles, they are not limited to just farmers, but they deal with everybody. Business expansion is in their own self-interest. Self-interest is one of those great motivators to get things done over the long pull.

We think that many of the proposals that the rural electrics have made are very sound and innovative and they have been in the forefront of trying to get this buggy moving in a realistic way that reflects not only conditions in the late 1980's, but what we are going to be seeing for the next 20 years.

We think that those local REC's and telephone co-ops have capacity to do a lot more in rural development.

Mr. **Gunderson**. I agree with that.

Mr. **Nilsestuen**. As a lender, and you raised the question earlier, again with a member of ours, one has to make cautious, well-selected, intelligent uses.

I won't paint it with a broad brush in either direction on that either to say, yes, we ought to go in willy-nilly.

We ought to look at what the mission of the organization is and what it can do well and what it would bring to the process. We also ought to look at those real strengths and what would undercut it.

I think that is a pretty broad-brush road of middle ground there, that we could make good use of people like the banks for co-ops and the REC's to get the job done.

Mr. **Gunderson**. Thank you, Mr. Chairman.

Mr. **English**. Mr. Penny.

Mr. **Penny**. No questions.

Mr. **English**. Mr. Grandy.

Mr. **Grandy**. Thank you, Mr. Chairman.

I guess my question to you as somebody who is approaching rural development from the cooperative side, the perspective of the cooperatives, is to talk a little bit about how you would interface and work with an expanded Farm Credit System.

I think you probably heard some of that testimony by Mr. Eberly. I was discussing this with a gentleman in the hall.

If their powers were expanded to get into rural infrastructure and, perhaps, even business and industry loans, where do you fit into that expansion of powers, assuming we have a greater role for cooperatives to play?

Mr. NILSESTUEN. You can?

Where does our organization——

Mr. GRANDY. Yes, exactly.

Mr. NILSESTUEN. We think where we fit is, one, as an expediter and two, as a provider of technical assistance. We are working right now with our district thing and on the front end of a couple of programs exploring what the opportunities are in the ways that we can make better uses of the resources that are out there right now.

Mr. GRANDY. Let me stop you for 1 minute. Are you saying when you are talking about technical assistance, are you an intermediary, a type of facilitator to help some of these communities or applicants for grants and loans to access a burgeoning system?

Mr. NILSESTUEN. No. We are a direct provider on contract, fee-for-service, generally, but not always, for business services, including feasibility, prefeasibilities, tons of people.

The reason we started this entity is because running a trade association for 5 years, I had people coming through the doors and saying you are the co-op folks.

We think a co-op would work. Can you help us? We didn't have a mechanism to do that.

So we would pat them on the back, give them a brochure, send them out there and say go to it. They would run into a wall more often than not.

We decided that won't work. We now provide when a business comes or a group of people who want to do a cooperative come through the door, we will do, we will look at the project. If we think it has merit, we will do a prefeasibility study and then do things like business plans, financial packaging, maybe even organizing if you need to get other players in it.

We worked on projects from the very small things like putting an employee ownership together so a business with 30 to 40 people don't go out of business in a small town and leave those jobs floating, to projects involving 600 jobs.

But we provided—really we were, in most cases the project director would play that role as well as the business developer. But we make use of under subcontacts, as any development company does, specific expertise depending on what the project needs.

I don't know if I was responsive.

Mr. GRANDY. I think I understand you. I know what you are talking about in terms of technical assistance.

It seems to me, and I am looking at one of the samples that you have under section C page 6 of your testimony, when you say "Imagine Main Street business owners coming together in a purchasing cooperative and buying in volume so they are now able to compete with large chainstores like K-Mart and Wal-Mart." That is a very significant factor in rural America because, as you know, Wal-Mart and K-Mart are moving to the fringes of towns that are sometimes no larger than 4,500 people.

Mr. NILSESTUEN. Let me give you a couple honest-to-God examples.

Four years ago the pharmacies in our State came and said, We are getting killed. We provide a very real service to our main streets.

Mr. GRANDY. Being killed by the Revcos?

Mr. NILSESTUEN. The people who have volume like the Wal-Marts and their pharmacies. Would a co-op work?

The answer after a while was, yes. They put together the Independent Pharmacy Cooperative.

Four years later there are over $300 million in volume and reach from Wisconsin all the way to North Dakota. It is a very simple structural entity, but it did for them something they didn't have the capacity to do individually or even in the small area, and that is buy together and also get some quality controls and technical guidance to the way they run their businesses.

There are lots of examples of that same sort of model. Something called FTD, the flower folks, is a co-op, they do the same sorts of things. They are the biggest in the business.

In the grocery and the hardware lines businesses, there is also purchasing co-ops doing the same sort of things that have been done for many years in the farm supply industries with the Land O'Lakes, and others. Functionally similar.

But those Main Street, small businesses which have very, very independent—haven't until recently looked at that environment and said, Do I want to be independent? How can I stay that way if I want to be?

The answer has been only two alternatives—franchise or branch. We think there is a strong third alternative, and that is to be part of a co-op just like farmers are part of co-ops.

Stay independent businesses, but take advantage of those volume and professional management and financing advantages that are out there. That is really, if you boil this all out, is what we are suggesting as a way to do that that would really help those Main Street sort of businesses.

Mr. GRANDY. I appreciate that.

I was trying to figure out where you fit in the puzzle for providing services to these communities and the businesses.

Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Grandy.

Rodney, we appreciate your testimony. You did a fine job.

Our next witnesses are Mr. Ronald Knutson, department of agricultural economics, Texas A&M University, College Station, TX., and Mr. Dennis U. Fisher, Texas Agricultural Extension Service, Texas A&M University, College Station, TX.

We want to welcome you both.

Without objection, your complete written testimony will be made part of the record.

Mr. Knutson, you want to lead off?

Mr. Fisher is going to do the speaking and you are going to answer the questions.

We will be happy to have your testimony .

STATEMENT OF RONALD D. KNUTSON, DEPARTMENT OF AGRICULTURAL ECONOMICS, TEXAS A&M UNIVERSITY, COLLEGE STATION, TX, AND DENNIS U. FISHER, TEXAS AGRICULTURAL EXTENSION SERVICE, TEXAS A&M UNIVERSITY, COLLEGE STATION, TX

Mr. **Fisher**. We agreed on a division of responsibility. Any errors in the statement are Mr. Knutson's.

We appreciate the opportunity to testify before this committee and commend you on your efforts on this most difficult area.

Dr. Knutson and I provided leadership on a series of development policy workshops designed to develop a consensus on rural development issues and policy options.

The workshops conducted this last fall include papers by experts from 22 different land-grant universities and responses by 39 different practioners, people who are working in rural development, and deliberations by approximately 700 participants who worked through issues, options, and consequences and came to some consensus. Each person participated in about 5 hours of roundtable sessions.

The testimony we are giving you this morning is basically founded on those workshops and what we discovered in those workshops.

Needless to say, we found rural communities in decline and an increasing gap between rural and urban communities in a number of important areas.

The testimony this morning will focus on four different areas. We will take a look at the situation, current policy, policy needs as identified by the participants, and then some ideas for paying the bill.

First, just 1 minute on the rural situation.

We had planning committees in each of the four regions of the country. Each committee was charged with identifying the most critical rural development policy issues for particular regions.

Those issues were quite different as we moved around the country. In the South, an inadequate educational system was their primary concern. Economic development opportunities ran a close second.

In the West, the issue was management of public lands and how that management impacted economic development. In the Northeast, the primary issue was managing change.

In the Midwest, the primary issue was having that capacity in rural areas to deal with rural development issues.

So the primary issues where different across the country. In spite of that the participants basically ranked the primary issues as follows: Education being the top item, economic opportunity, infrastructure development, health-care provision and decisionmaking capacity.

Those were the top five items. They varied in importance from one region to the other, but those were basically consistent items in all four regions of the country .

Let's talk for 1 minute now about the inadequacies of current policy, some of the difficulties. Current policy focuses primarily on agriculture, infrastructure, and untargeted national programs.

Often these programs are urban designed and there is a tendency for those programs to discriminate against rural areas, not necessarily overt discrimination, but discrimination out of convenience.

It is easier to deliver some kind of program in urban areas and easier to receive benefits than it is in rural areas.

Farm programs are basically not the answer for a number of reasons. The first is that most rural communities are not agriculturally based anymore.

About one-third of the rural communities, as I recall, are heavily dependent upon agricultural income, which leaves two-thirds not dependent on that income source.

Second, even for those communities that are dependent on agricultural income, the dollars that go into farm programs that ultimately go to producers, leave the rural communities very quickly to the extent that agribusiness activities tend to be located in the metro areas rather than in the rural areas.

Third, the infrastructure policy has basically been too narrow, focusing on roads, bridges, water, sewer systems, ignoring things like health-care delivery and not focusing on items like telecommunications systems, the kinds of infrastructure that would bring the rural economy into the information age.

In addition, much of the infrastructure investment, while it has been positive, there probably has been less return because there wasn't the complimentary investment in human capital kinds of programs.

So you may end up with a program which, in fact, provides fine infrastructure, but there may be a real education problem in the communities, low levels of education, so you can't capitalize on the infrastructure investment.

Fourth, there is a fair amount of discrimination in the various programs as far as rural areas are concerned, particularly national programs designed for urban areas dealing with poverty, health care, education, business development, those kinds of things. Probably the most blatant example is that of the Medicare reimbursement system which reimburses rural hospitals and doctors at a lower rate than the metropolitan areas are reimbursed.

There is an assumption that it costs less to deliver services in rural areas than it does in urban areas. The participants in the workshop said a resounding "No!" to that idea.

The last is the notion that the new federalism which pushed the decisionmaking with respect to development issues down to the local area, probably an appropriate place for the decisionmaking to go, to States and local governments, came at a very bad time. With that change came the bill for the programs at a time when tax bases were declining.

So our current policies really are not doing the job.

Policy needs. Basically there are three primary areas where we need rural development policy help.

The first, to build human capacity, second, to provide for infrastructure, and third, business development. Let me focus on human capacity. The idea is to empower local people, give them the capacity to address their problems, attract business and therefore reverse the pattern of selective out migration. We are talking about reducing rural illiteracy and developing decisionmaking capacity. To a large degree, these are long-run solutions, not quick payoff.

The specific suggestions that participants made in this particular area, are the following: Target a larger share of Federal education budget toward rural schools. Basically this is to help rural schools begin experimenting with the kinds of techniques, approaches, innovative ideas, that are suitable for rural education.

Second, target rural schools for funding equity, greater funding equity.

Third, involve rural schools in things like job training and elimination of illiteracy. Get them more fully involved in the rural development process.

Fourth, initiate a pilot literacy initiative in the WIC Program which already includes a nutrition education component.

Expand JTPA training programs to include increasing literacy and basic-skills training and target to the needs of rural areas. Provide increased extension services, USDA support for programs designed to increase public decisionmaking capacity.

And the last item, provide increased support for existing institutions which provide technical support for local governments.

Rural infrastructure—the primary issue in this area is one of balance.

The difficulties with past infrastructure investments to some degree has been one of an unbalanced investment. What participants were talking about was not large Federal grants, but basically a new set of incentives that would encourage private investment into infrastructure kinds of projects.

I won't go down through the details that were suggested there, but basically they covered items such as looking at the new telecommunications kind of technology, rural health care delivery, matching commitments for State and local government with some flexible guidelines so communities could put packages together.

And the third area of policy needs is rural business development. The primary problem in this area was the lack of good fundable ideas or the skills to put those ideals together in a package so that they are indeed fundable, not a shortage of capital.

This is not to say that capital availability isn't important. It is. But the feeling of participants was that the bottleneck is really in the area of good ideas and packaging of those ideas.

The important approach to focus on was retention and expansion rather than focusing on recruiting. While business recruiting is important, retention and expansion is probably a preferable approach to start with, and to focus on.

Specific suggestions included increased emphasis on rural business management and entrepreneural education. This training might be tied to Federal loan guarantees. Existing institutions could provide some of this kind of assistance.

Technical assistance on marketing analysis, operation management, financial management was suggested. Again, existing institutions can provide some of that assistance.

Last, capital availability, basically making the current loan funds, loan guarantee kinds of funds available.

Paying for the rural development activities, I think there are some real serious challenges there because some of the kind of programs that were suggested are long-term in nature and would require substantial funds.

But for the short run we are talking about basically targeting existing programs with some redesign so they fit conditions in rural areas, focusing on things like matching grants, private incentives to basically fund the suggestions that were made by workshop participants.

A couple of conclusions. First, I think this area is extremely difficult because of its size and the budget crunch that you are running into in Congress.

Dealing with the problem will involve a change in priorities; immediate action and dealing with some long run kind of fixes, not quick fixes.

Second, I think there is a real danger in choosing familiar programs that are easier to understand than going after some longer run fixes.

For instance, loan guarantees are easier to understand and deal with lower cost versus management training and technical assistance. Industrial recruiting is an easier approach than a retention and expansion programs. There is a danger, I think, in choosing the familiar.

Third, the diversity that we found across the country requires a comprehensive kind of approach to rural development.

One area may need help in two or three particular situations where another area needs a totally different mix of programs.

So flexibility and comprehensiveness is essential.

Fourth, human capacity building seems to be the primary item that was cited by workshop participants. This is difficult because of the selective out migration that is occurring at a pretty rapid pace these days.

Last, the immediacy of the problem. I think it is very serious. We are seeing quite a depopulation of our rural areas. From 1986 to 1987, about 1 million people moved from rural America into metropolitan America. We are in a situation where we either pay now or pay more later, which is a very difficult posture.

I would be happy to answer any questions.

[The prepared statement of Mr. Knutson and Mr. Fisher appears at the conclusion of the hearing.]

Mr. English. Thank you very much.

Mr. Fisher, I suppose one of the questions that arises is if we have limited resources, the real question is how to best utilize those resources.

We have programs that have been around 50 years that started out with what we would call today rural development.

I suppose we could do a great deal in modernizing those programs, updating and targeting them more. Also, I think you probably heard that much of the testimony in the past has been focused on the various bits and pieces.

You get programs scattered all over the place and nothing fits together.

It is a kind of hodgepodge of different approaches.

People don't know where to get help, where it's available or what kind of assistance they can get. Also, possibly, some discussion about pulling all that together and dealing with it.

It would seem that we are dealing with what can be done on the Federal level; what can be done on the State level; what can be done on the local level.

Each area you mentioned, in particular management training and some of the educational aspects of assistance, might be available. Can you give us any kind of a feel as to what you think can be done on the Federal, State, and local level?

Mr. **Fisher**. The last session in our workshops dealt specifically with that issue, the roles of government in six policy areas that we talked about.

One of the things that I found interesting from our respondents was the fact that they were not asking for a blank check from Washington.

They would like to see some real leadership come out of Washington and expressed a fair amount of frustration with the proliferation of programs that were in one agency after another.

There was great confusion as to how to access what is available now. There was some real difficulty in that area.

Participants were asking for some leadership in consolidating programs and finding a place to go for assistance, packages of assistance. The feeling was that they needed leadership.

Second, there are some kinds of programs, some kinds of areas where there is going to be a need for some Federal financing. The area of education may be an example of that.

We have experienced a selective out-migration from rural areas which leaves areas with a higher proportion of younger and older people in the rural population than in the general population.

You have a declining tax base which means funding education is very difficult, particularly since the students who are educated in the rural areas tend to leave. So for things like education, there will be a need for some funding.

Third, they were really asking for some guidelines, some help with the notion of packaging. What is needed for an overall economic development program for the community?

Decisions with respect to the exact program mix would be made at the local level working with any regional kind of government structure and State government structure so that each level would be involved in putting together a plan and a package.

One speaker dealt with the question you asked earlier about which communities do you help and which ones don't you help, which is a terribly difficult question, almost politically intractable question.

One speaker dealt with that issue directly, an official from the State of Nevada in charge of their economic development program. What he suggested was that, in fact, funds, grants should be made and loan guarantees, et cetera, should be made on a cost sharing or a matching basis, but they should be allocated to communities who are prepared to approach rural development from a comprehensive point of view. That is, to look at their whole rural development situation. The community may need one program or two programs, or they may need help in more areas. The notion is that they have a package put together that shows that those are the two areas where they need help and a strong commitment to using that help, so you don't end up with a situation where expensive dollars are put into, say, an industrial park and it is used to grow grass between the cracks in the concrete.

You avoid that kind of investment.

Mr. KNUTSON. It seems to me there were two things that came out strongly in the workshops. One was the strong feeling on the part of people in rural areas that they were going to demand equity in treatment; that they weren't going along with the notion anymore that it costs less to provide services in rural areas and therefore lower level of subsidies in rural areas are justified; that there has to be a willingness to provide the same quality of service in rural areas as in urban areas. They viewed the Federal role as providing assurance that there was equity in Federal programs.

The second point was that there are certain problems that simply are not going to be solved by State and local governments, that there is going to be Federal leadership in solving certain problems.

Rural education in the South is one of those problems. There is no way we are going to solve the education problem without Federal leadership and Federal help. So while you may consider education to be a local and a State function, the problem is so severe that it can't possibly be solved by the State and local governments.

And that is the way they viewed it. You may not like that answer, but the message came through loud and clear in the South, education is a major problem that was going to require Federal assistance.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

What specifically would you recommend as the Federal role in providing that financing for education?

General education aid to be administered and allocated by the State or the local school district or increased emphasis on Federal funding for those programs that we are currently involved in like chapter I, and special education which then might allow the local revenues to be used for other general education purposes?

Do you have any specific recommendations as to how best to spend those Federal dollars if we are going to help the rural areas?

Mr. KNUTSON. I think it has to be targeted. You can't expect the Congress to provide huge amounts of money to deal with those problems in a short run.

I think there needs to be a targeting on the rural education problem using existing programs. But I think there is another dimension to the problem that we have got to begin to figure out who we deal with, and that is the illiteracy issue.

We have a very large portion of people in rural areas who are not equipped to enter, in any sense of the word, the technological era that we are already in. We have areas of the country that have built their labor force on manufacturing industries with low levels of skills.

Our best idea with respect to that issue is to take a successful program like the WIC Program and begin experimenting with what we can do with one of those successful programs which have an education component attached to them and begin to get rural schools involved in the literacy problem on a pilot basis.

I think by that means maybe we can get a handle on what is the best way to do it. The facilities are there, you have people there who have skills in education. We think they can better be utilized on a basis of evenings and weekends to help deal with some of these very serious problems that exist in rural education.

So it is not only an issue of K through 12 education. It is also how do you deal with the illiteracy problem. And I think the rural schools on a pilot basis can play a very important role, but we have got to figure out how to improve education before we go in with a large program. We don't have the money to do that.

We have to figure out exactly what the best approach is. And I think WIC may well provide that handle, working in conjunction with rural schools.

Mr. PENNY. I appreciate that answer. I also appreciate the fact that you have regionalized your analysis of the problem we face in rural development because turning around the rural economy is going to require different approaches in different areas.

I have embraced that philosophy in the legislation I have introduced called the agricultural research commercialization corporation, which would set up regional centers to identify alternate uses for crops in those areas and to help to underwrite the marketing of those new products so that we create new demands for our farm commodities.

It seems to me that has a variety of benefits, a new market for that crop coming out of the field, increasing demand for that crop should help farmers get better income. If you do the processing close to home, because we now have an incentive to put the financing together for that facility, that is going to create jobs in that rural community.

So it seems to me that in that way we do provide a mechanism that may be applied differently in different areas because there are different needs, different crops.

You didn't specifically embrace any legislation that is now before Congress, but is that something that you are comfortable with, that approach?

Mr. KNUTSON. I think it makes sense for counties that are agriculturally dependent. I came from western Minnesota originally and am very familiar with that part of the United States.

For that area, assistance in helping to center more of the processing of agricultural commodities in rural areas makes a lot of sense.

In other regions, looking at the retirement opportunities or looking at the recreational opportunities makes more sense.

So you really need a very pragmatic approach to dealing with the issues.

You have got to have the flexibility to utilize the resources that exist in the area.

Mr. PENNY. I thank you again for your report, for your testimony today, and Mr. Fisher as well.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman.

I don't have any questions.

I apologize for coming in late. I was chairing a hearing, another subcommittee of another committee. But I do have a statement that I would ask to be included in the record.

Mr. ENGLISH. Without objection, the statement will be made a part of the record, at the beginning of the hearing.

I would like to ask one final question. With regard to providing information and assistance to rural communities whether it's dealing with Federal programs or not, to try to help local communities, here are the basic elements that you need to be working on as far as the Rural Development Program instead of getting into a "spinning your wheels" type of approach that seems to be so common out there. Do you feel that the one system we do have out there at the present time, the agricultural extension services is something we need to utilize as the agricultural extension services?

If not, who should be the one that would play this kind of a role?

Mr. FISHER. We probably have some bias in that area since both of us work with the Extension Service. But I believe the Extension Service definitely has a role in that area. Again, the role, it seems to me, is an educational one.

When it comes to the point of putting deals together, you often have to have someone around who can offer technical kinds of assistance. So I think the extension services around the country are in a pretty good position to do that.

The Wisconsin program, as a matter of fact, has been very successful in doing that, probably one of the best programs in the country providing information for communities and helping them with rural development kinds of issues. I think there would need to be some direction to the extension service across the country to insist that that be picked up as a major component of what, of the teaching that would go on through extension.

Left to their own direction, extension services may indeed focus attention on agricultural production and not pick up the challenge in rural development. So I think some direction would be needed.

There are a number of other institutions out there who can help. The councils of government provide a fair amount of technical assistance. In Texas we often work in combination with councils of government or planning commissions where we do the educational work.

When it comes down to putting together an actual development plan, to apply for some grants or some cost sharing kinds of things, looking for loans and loan guarantees, the council of government will often get involved in providing technical assistance.

We have a number of institutions out there that are available, and the job is big enough that it seems to me that we need to marshal the resources and go to work.

Mr. ENGLISH. This informational teaching mechanism, I think, has got to be a critical one. It is extremely important how we get assistance to these communities that don't have the ability to help themselves and that can't go out and hire some fancy planner to come in and do the work for them as many metropolitan areas do.

I would appreciate if you all could give that some thought, focus in on that aspect and see if you can give us a recommendation as to how that can best be addressed. We have the best mechanisms and how this fits into efforts that the States may be capable of undertaking and how that fabrication can be woven together.

That would be extremely helpful to us.

[The information follows:]

EXTENSION'S ROLE IN RURAL DEVELOPMENT

Ronald D. Knutson
Dennis U. Fisher
Texas Agricultural Extension Service

At the hearing on June 15, 1989, Congressman Glenn English, Chairman of the House Agriculture Subcommittee on Conservation, Credit and Rural Development, requested that we provide our suggestions regarding the role Extension could play in filling the needs for a comprehensive rural development policy. The following is our response:

In our testimony, we outlined three fundamental components of a comprehensive policy:

- Building human capacity
- Providing appropriate infrastructure
- Developing rural business

Extension can play a crucial role in helping to achieve policy objectives in each of these areas. The greatest need for expanded Extension programs in four primary areas:

- Public policy education
- Management training
- Improving decision making capacity of rural leaders
- Technical assistance

Public Policy Education

There is a dearth of information on federal policy options for rural development, but the void is even greater for state and local policy. Educational programs are needed to help rural people identify and evaluate the issues they face, examine the policy options available and the consequences of these options. The topics include not only understanding the local economy, but understanding how national and international forces, impact that local economy and the maze of federal, state and local policy options available.

Extension has long provided public policy education on agricultural programs. These same skills could be used to help rural leaders deal with development issues. Additional manpower and/or a reorientation of priorities will be required to provide this training.

Management Training

One of the major barriers to retention and expansion of rural businesses and effective management of local government is the lack of basic management skills. This need is sufficiently widespread that a major national initiative targeted toward rural business managers and potential managers should be one of our highest priorities. The types of training required include financial, personnel, office, marketing, and operations management. Extension has considerable experience in small business management training for farm and non-farm businesses but insufficient manpower, to address this critical need, given current resources.

Incentives and means need to be provided for rural managers of private firms and government units to obtain management training. For example, requirements could be included for:

- Recipients of all government small business rural loans including guaranteed loans to receive management training (as a requirement for receiving the loan).
- Provision could be made for inclusion of the cost of training in the loan and/or a direct government training subsidy could be provided. Clearly, rural small businesses do not have the same capability to pay the cost of management training as other firms, nor is management training readily available in rural areas.

Extension could be the focal point in rural America for seeing that such training is provided. In some instances, the required expertise may exist within Extension to directly provide management training. In other instances, Extension may be the leader or facilitator in pulling together the needed experts and arranging the programs of study. Cooperation between Extension and other agencies should be a funding requirement.

To assure quality training, Extension might be given the right of first refusal to extend a quality management training program. Because of obvious state benefits, a matching state/federal funds approach might be utilized.

Improving Decision Making Capacity of Rural Leaders

In addition to the need for improved management, there exists a decision making capacity gap among leaders in much of rural America. Evidence of this gap includes severe fragmentation of rural interest groups and the lack of consensus on what, if anything, should be done to deal with rural problems. The result is the need for an aggressive program to train rural leaders. Particular emphasis should be placed on the public decision process, data needs for objective public decisions, the consensus building process, the process of public policy education, institution building, communication skills, meeting skills, the political process, and the role of the media.

Extension's role in developing leaders has been particularly strong in its youth programs. Some states have established highly successful leadership programs with young farmers and related agribusinessmen. Rural community leadership development is equally important. Pilot programs exist in some states but need to be expanded in terms of geographic scope, coverage, and the lessons learned. Again, matching funds and a right of first refusal might be provided to Extension in providing this service.

Technical Assistance

Many problems confronting rural businesses and governmental units cannot be addressed by general education programs. They require unique one-on-one technical assistance. Once provided, the firms or governmental units may be in a position to handle similar problems in the future.

Many agencies, such as Councils of Governments and development organizations, have as their reason for existence providing technical assistance to businesses or governmental units. Yet, the need for technical assistance vastly exceeds the capability to deliver. For profit, consulting firms are not generally available in rural areas or not an option because of cost.

Needs for technical assistance should be considered and provided for making loans, strategic planning, feasibility studies, management audits, consumer studies, marketing audits, grantsmanship, and dealing with government programs and mandates. Extension can play a crucial role in providing certain types of assistance. At the same time, it needs to be recognized that technical assistance is costly. Once again, benefits are derived both by the state and by the general public, justifying cost sharing. Also, requirements can be imposed to provide and utilize technical assistance when it is needed. At the same time, efforts should be made not to duplicate services with existing organizations. This requires a higher level of cooperation and coordination among agencies than has typically existed.

Conclusions

Extension has several strengths which can be brought to bear on rural development issues.

- Extension has ready access to research findings from universities across the nation which can provide insight into possible solutions to rural issues.
- Extension has offices and professional staff in almost every county in the nation which provides close proximity to the issues and people involved.
- Many rural leaders serve on county level Extension advisory committees for agriculture, 4-H, home economics, and community development programs.

Extension also has some characteristics which must be addressed to insure effectiveness. Extension has people with appropriate disciplinary training to effectively handle rural development work but not enough to handle the tasks outlined above. In-service training on relevant topics, in some cases additional staff and a reorientation of priorities will be required. Additionally, Extension staff tend to be oriented toward education rather than technical assistance. Thus, additional training or staff will be needed.

The job to be done is massive. Extension can and should make a significant contribution to dealing with rural development issues.

- Additional funding will be required with matching state contributions.
- Some government programs to assist rural areas lend themselves to the requirement that recipient receive training. Extension could be given the first right of refusal to provide that training.
- Resources to deal with rural development issues are not uniformly available. Extension staff will need to be flexible -- provide assistance directly in some cases and broker the services of others in other situations. Cooperation with other organizations could be mandated.

Rural residents constitute 25 percent of the U.S. population. Most of these individuals live in rural communities, many of which are encountering problems relating to economic decline. Extension has a comparative advantage in working with the leadership and business people of these rural communities in helping them find solutions to their problems. An aggressive state-federal program can help Extension do for rural America what it has done for agriculture.

Mr. Knutson, Mr. Fisher, I appreciate your testimony.

You have done a great job.

It has been very helpful to us.

With that, we will recess, subject to the call of the Chair.

Thank you.

[Whereupon, at 12:18 p.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of

Jack W. Dickey

Chairman, Agriculture-Rural America Committee
INDEPENDENT BANKERS ASSOCIATION OF AMERICA
and
President, First National Bank of Thomas
Thomas, Oklahoma

Hearings on

Rural Development Policy

House Committee on Agriculture
Subcommittee on Conservation, Credit and Rural Development
Hon. Glenn English, Chairman

June 15, 1989

Mr. Chairman and Members of the Subcommittee, I am Jack W. Dickey, President of the First National Bank of Thomas, Oklahoma. I am also the chairman of the Agriculture-Rural America Committee of the Independent Bankers Association of America.

A major segment of IBAA membership banks are community banks serving rural areas. The IBAA membership includes about 4,270 rural banks, located outside of metropolitan areas. About two-thirds of those rural banks are also substantially involved in agriculture, having at least 15 percent of their total loans in agricultural loans.

Local community banks are well positioned to contribute to virtually all aspects of rural economic activity. Functioning within the proper bounds of financial safety and soundness, those banks are just as committed to the betterment of their rural communities as any other public, private, or cooperative institution might be. Although our rural communities and economies face many challenges, it is well to bear in mind that thousands of small businesses are operating today in rural communities with financing provided primarily by local banks in those communities.

Commercial banks have plenty of funds to loan to qualified borrowers in rural communities. Loan-to-deposit ratios are relatively low, and most banks are seeking loans to add to their portfolios. There is no basic shortage of credit for rural economic development.

Of course commercial banking institutions must operate within limits of safety and soundness, in order to protect depositor's funds and the deposit insurance fund. In order for banks to finance them, rural businesses must demonstrate that they can generate enough cash flow to service their debt. And there is need for equity capital, to provide a financial cushion subordinate to the bank financing, in the event that the business fails to generate the required cash flow. In the absence of proven cash flow and an equity capital base, a third party credit enhancement or guarantee is necessary in order for a commercial bank to provide the financing for a rural business venture.

If rural development policy is going to be used to stimulate business activity in rural areas, in many instances bank financing will be feasible only when outside credit enhancement is available to reduce the credit risk. There are various ways that such credit enhancement can be provided:

*Government loan guarantees for rural enterprises, when structured and managed properly, have proven to be effective in the leveraging of private capital for rural business development. For several years, the Farmers Home Administration operated the Rural Business and Industry Loan Guarantee Program (B&I) so as to provide substantial new capital for rural businesses. We believe the B&I program could be usefully revived.

If the B&I program were to be revived, the volume of authorized funding would need to be increased to a level that makes it worthwhile for lenders and business borrowers to consider the program as a financing option. Based on previous experience with this program, an annual level of $1 billion would seem to be a minimum level for a viable program. Since the Federal guarantee under B&I leverages the use of private capital, this approach is relatively prudent in terms of Treasury exposure. Reviving this program would also be cost-effective in that it would use existing FmHA personnel for Federal oversight.

Another legislative issue, in reviving the B&I program, involves the percentage of FmHA guarantee on the loans. Recent administrative changes have moved in the direction of decreasing the percentage of the guarantee, and increasing the risk exposure for the lender. Basically, such changes undercut the program's ability to stimulate new businesses in rural areas, by channeling the guarantees towards businesses that could secure financing without the guarantee--and eventually negating the guarantee's usefulness per se. For that reason, we would recommend that Congress consider fixing the guarantee level at 90 percent if a serious revision of the B&I program is undertaken.

*The Small Business Administration loan guarantee program continues to provide credit enhancement for banks to finance small businesses. SBA loan guarantees channeled through local commercial banks tend to assure that rural businesses, in particular, get a major share of the financing.

*In addition to the loan guarantee programs, various legislative proposals have been made that would, in one form or other, provide some at-risk reserve funds that might be subordinated to bank credit to make rural business projects more feasible to finance. One such plan is based on recent experience in the state of Michigan. The concept of linking more equity funds with bank credit in financing rural business expansion is promising, if substantial equity funds can be found and the financing package can be tied together workably.

Depending on how the financing is structured, commercial banks can also assist in financing rural water and sewer systems and other services needed to support rural development. One means for this to occur is for a local bank to buy "bank qualified" tax-exempt bonds issued by a unit of local government. A provision of the Tax Reform Act of 1986 enables a local government to issue up to $10 million of such bonds annually. By selling to a local bank that is directly familiar with the financial position of the local government entity, the issuing entity may not need the type of bond rating that is difficult to secure on such small issues. One problem is the long maturity of most financings for rural water systems, for example, which has generally limited banks to interim financing of such projects. However, since there are real possibilities for using bank qualified tax-exempt bonds to increase the availability of financing for rural water and sewer projects, it would be useful for the FmHA to examine ways to remove the glitches that have prevented greater use of such financing.

Many rural hospitals are having serious financial problems, and a substantial number of communities in Oklahoma and other states have lost their hospitals due to closings. Mr. Chairman, we are supportive of your efforts in seeking better treatment of rural hospitals under Federal health care programs, and we would encourage this Committee to give particular attention to the rural hospital problem in your deliberations on rural development legislation.

Mr. Chairman, I would be pleased to respond to any questions.

THE FARM CREDIT COUNCIL
50 F STREET, NW . SUITE 900 . WASHINGTON, DC 20001 . 202/626-8710

Statement of

Sam G. Eberly, Chairman

The Farm Credit Council

before the

Subcommittee on Conservation, Credit and Rural Development

House Committee on Agriculture

June 15, 1989

Mr. Chairman, and Members of the Subcommittee.

My name is Sam Eberly. I have a grain and livestock operation in Sedgwick County, Kansas. I serve on the Board of the Farm Credit Bank of Wichita, and as Chairman of the Boards of The Farm Credit Council, the trade association of the Farm Credit System, and the Farm Credit Corporation of America.

You have asked us to testify today on three specific points: a) our specific proposal or recommendation for rural development, b) what role we could play in the implementation of any proposals, and c) how this should be financed.

Let me begin by saying that the Farm Credit System is fully supportive of the work of the Chairman and Members of this Subcommittee to gather information and evaluate proposals on this important subject. The Farm Credit System has, through The Farm Credit Council and its Legislative Committee, also been evaluating the issues relating to this subject and the role that Farm Credit institutions could play in any new Federal rural development package.

It is our strong belief that the interest of all participants in this process should be to maximize the necessary services to rural communities and businesses, be it for education, health care, water or sewer or capital. As a representative of one of the major lenders to rural America, we would further urge that your approach to financing and helping to capitalize rural enterprises be expansive. We believe, Mr. Chairman, that there is indeed enough work to be done so that there is a role for everyone. And, yes, the Farm Credit System should have the opportunity to be a participant in any new rural development initiative.

This is based on the fact that the Farm Credit System currently provides the financing for nearly 650,000 farmers and ranchers and about half of the farmer-owned cooperatives in the United States. Through this network of institutions, we have been an essential provider of credit and related services to rural America. And our charter mandates that we provide our services to all areas of the country, thus the delivery system is in place, by law.

If you concur that the System should have a role in a new rural initiative--and we urge you to take that position--you also should know how current Farm Credit authorities would limit that role. Attached to our testimony is a brief listing of some of these limitations. I want to add, for emphasis, that our institutions are even limited in their ability to serve agriculture.

Let me also say briefly that with regard to the financing of any new rural development package, it is our position that the financing of rural businesses and services should be grounded in good business judgment. We concur with the manner in which you are examining these issues, possible solutions to problems and funding alternatives. It is a responsibility of everyone involved to make certain that the objectives of rural development initiatives are carefully crafted, that the programs implemented do what they are intended to do, and that these be funded appropriately.

As a rural businessman and a director of the Farm Credit Bank of Wichita, it is very obvious to me that the Farm Credit System has had an important role in the development of rural America. In its most basic form, this role has been to provide a conduit for capital from the Nation's money markets to rural areas. Congress established the framework for the privately owned, cooperative institutions that comprise the System to ensure that credit was available, in both good times and bad, to farmers, ranchers and the cooperatives that serve them. We finance the most creative group of risk-takers in this country--America's farmers. System institutions have provided both short-term operating loans and long-term real estate credit. We have financed complex, family-owned agribusinesses, rural housing, rural electric and telephone systems, cooperatively organized rural water systems, large agricultural cooperatives that rank high on the list of Fortune 500 companies, as well as small, local cooperatives that own one country elevator.

When the commercial banks of our nation moved away from working with the GSM international financing program of USDA, it was the Farm Credit System that stepped in to finance U.S. agricultural exports to developing markets. The System now has over $2.25 billion in international loans in its portfolio, and hasn't lost a penny in this loan making authority.

A close look at the history of the Farm Credit System shows that it was chartered by Congress to serve rural America because commercial banks were not willing to meet this demand year in and year out. Commercial banks' focus was then and is today on where they can make the most profit for their stockholders. If the bottom line is not served by being in rural America, their investment will be somewhere else. That's not meant to be critical, Mr. Chairman, it's a simple fact.

It has been the farmer-owned associations and banks of the Farm Credit System which have, in large measure, served as the dependable source of credit to rural areas throughout its seventy-three year history. This broad purpose and public-private partnership has been recognized and reaffirmed by Congress in every major piece of Farm Credit legislation enacted since the System's inception.

Mr. Chairman, as you and your colleagues on this Subcommittee know, much has changed in rural America since those early days. Agriculture is no longer the predominate business enterprise of the country. Less than one-third of all non-metropolitan counties are considered to be dependent on agriculture. Farmers today account for less than 3 percent of the population. There continues to be a significant outmigration from rural areas. Rural unemployment rates are nearly a third higher than in urban areas. As you also know, rural incomes are one-fourth less than non-rural incomes.

Some would say we have a chicken and egg situation. Some will rightly point out that the vitality of rural America is dependent on a financially sound rural business community. Others will say that the economic health of agriculture is the fundamental ingredient to the health of rural America. We concur with both points of view. You cannot have one without the other.

Earlier this year, The Farm Credit Council's membership unanimously adopted a policy statement on rural development. This resolution read in part:

> "The availability of competitively priced credit in rural areas is essential for economic growth to take place. System institutions are well situated to serve the broader credit needs of rural areas including the financing of rural infrastructure. Further, a more diversified loan portfolio would strengthen System institutions, permitting them to better serve their traditional clientele.
>
> "Accordingly, the Farm Credit Council will support legislation to preserve and enhance the role of System institutions in financing credit-worthy rural enterprises, both community-based and private, while maintaining the existing farmer and farmer-cooperative ownership of the Farm Credit System."

Based on this resolution and our historical commitment to the financing of rural America, we would like to offer these broad suggestions for consideration as you move forward with legislation:

o Rural communities are struggling to improve or install water and waste disposal systems to meet Federal health and safety standards. USDA's Economic Research Service estimated last Spring that rural communities must have $20-40 billion in capital expenditures to bring water and wastewater treatment facilities up to national standards. These local infrastructure projects require that there be a lender capable of offering fixed-rate, long-term loans. That intermediary between the complex financial marketplace of Wall Street and the rural community could be the Farm Credit System.

o Rural communities are seeking alternative financing sources to current government Federal loans or grants. System institutions are very interested and willing to finance creditworthy community infrastructure projects which may never be funded by FmHA, because of the backlog of qualified applications. Under the limited authority in the 1986 Budget Reconciliation Act, System institutions are authorized to refinance certain Federal community facility and business loans. Many of the communities involved readily admit that they would borrow from System lenders if they could. This is not in any way a replacement for FmHA's community facility loan programs.

o Many business opportunities exist for farmers and others who seek to add value to raw agricultural products through processing and marketing. System institutions are severely limited in their ability to meet the credit needs of these individuals. With minor changes to existing authority, the System can assist these individuals in developing these new rural businesses. Financing this activity is entirely compatible with and complementary to the System's ongoing lending programs.

These are but three of the vital areas where there is a clear need which the System can meet.

We would also suggest that there are certain fundamental principles which should be applied to any Federal rural policy. These include:

- leadership for any development project from within the local community;
- local commitment to any project proposed;
- outside expertise to help identify local resources which can help channel and build upon local strengths;
- community ownership, direction and a partnership in funding;
- financing of any rural enterprise on a sound business basis to help ensure the long-term survival of the enterprise financed;

The Farm Credit System can support and enhance the sound economic development of Rural America. The following are some of the strengths which the System brings to this process:

- a long-established track record in meeting the highly diverse, complex financial needs of farm, cooperative and utility lending. System institutions are the only lenders to exclusively serve Rural America. Today, the System has upwards of 600,000 loans outstanding to farmers and to several thousand farmer cooperatives.
- experience in financing rural home loans. To date, local Farm Credit institutions have made 43,000.
- skilled loan officers and appraisers who understand the factors that affect the success of rural businesses.
- an established delivery system which includes 269 locally owned associations which serve all regions of the country; and an established Bank for Cooperatives structure which serves eligible cooperative borrowers throughout the country. This total delivery system is second to none in rural America. It is in place with credit professionals and experts who can provide technical assistance to meet an even larger demand in Rural America.
- procedures in place to minimize risk, based upon cash flow lending, proper collateral and loan documentation procedures.

Mr. Chairman, while we examine ways in which the Farm Credit System can more effectively assist and stimulate rural economic development, the System will not jeopardize any of its existing services to current customers. Yes, we believe that lending to a broader base of customers will help diversify the System's loan portfolio and thereby strengthen each institution's ability to withstand the inherent cyclical economic problems of agriculture. To the extent that the Farm Credit System can help strengthen the rural economy in general, agriculture will ultimately reap the rewards.

There should also be a careful review of the current limitations on the System's authorities to meet future needs in Rural America. We would again direct your attention to the attachment to my statement which highlights some of these issues.

Mr. Chairman, just as you and your colleagues determined that there was a need for "Farmer Mac" to increase competition in what have been our traditional markets, there is a need to ensure that the Farm Credit System is an equal player in any new strategy on rural development.

Congress should not invent a new bureaucracy to serve Rural America. Like a number of other Federal programs that were created in the earlier part of this century, the Farm Credit System can help meet the objectives which Congress intends. But while agriculture and commercial banking have changed dramatically over the past 35 years, the Farm Credit System's lending authorities have not. The System's principal concerns are that efforts be directed to credit-worthy activities, be related to the System's expertise, and be of benefit to the System's owners.

No other institution has a greater stake or is better positioned to assist in the carrying out of a new policy for the development of Rural America. We stand ready to help.

Mr. Chairman, I would like to make two other points. I live in an area where there is a somewhat different rural development issue. Our rural areas are being encroached upon by urban growth. At one time, we were quite a ways from the Wichita city limits. Today, the city limits adjoin my farm. As a result, land near us is sold not based on its agricultural value, but on its development potential for homes. Where the agricultural value of property would be $500 - 1,000 per acre, we're seeing land sell at $10,000 per acre.

In our financing of rural housing, as an example, we are limited to financing moderately priced housing. If we must include real estate value, moderate priced housing exceeds the limits. Land values have nothing to do with the attractiveness or value of the home itself. That is just one small example of an increasingly difficult problem in our immediate area.

Mr. Chairman, there is one final issue that is relevant to the issue that is being discussed here today. The Agricultural Credit Act of 1987 established an insurance program with premiums based on outstanding loans. The program is designed to protect investors in System bonds.

There is, however, a technical problem with the law which requires the System to pay insurance on loans guaranteed by FmHA, the Commodity Credit Corporation and the Rural Electrification Administration (REA). Since the System is unlikely to experience any financial losses on federally guaranteed loans--the only effect of the premium is to make System lenders noncompetitive for such loans which normally have lower interest rate margins because of the reduced risk. Clearly, the rural economy benefits from credit extended by the System and supported by Federal guarantees. We should encourage, not discourage, participation in Federal loan guarantee programs. We intend to ask Congress to remedy this problem and would appreciate your support.

Thank you for the opportunity to testify here today.

Current Limitations of Present Farm Credit System Authorities to Assist Rural Development Efforts

Population limit for rural home lending inconsistent with the FmHA definition of rural areas.

The current limit that a town or village cannot exceed 2500 persons is much too narrow, and inconsistent with other Federal definitions of rural areas.

Fifteen percent limitation for rural home lending restricts rural home development.

The 15 percent limitation on institutions' portfolio lending for rural homes should be increased or eliminated. This limitation represents an unnecessary constraint on the availability of credit for rural home purchasers who want dependable lenders that can provide a constant source of financing.

The 20 percent through-put requirement on basic processing and marketing loans restricts the System's ability to finance related operations essential to current borrowers.

Under present authority, a farmer who receives System financing for processing or marketing enterprises must grow at least 20 percent of the product. This is an arbitrary standard, and not realistic in view of the rapid changes taking place in processing and marketing. Many times System institutions have been put in the position of helping a farmer to get started in business, but then having to end a positive lending relationship because of this arbitrary standard.

In several areas of the country there are examples of processing operations which may not get credit because the operations are not supported, in part, by growing/harvesting activities. In the State of Maine, for example, there are a number of wood processing and manufacturing facilities which cannot be financed because they do not meet the harvesting or growing requirement. Nonetheless, these are businesses which could benefit from the financing alternatives which competition among lenders brings, and that is of critical importance to the success of current Farm Credit System borrowers in their own operations.

Eliminate reference to "on-farm" for related businesses.

System institutions are authorized to lend to agriculture-related businesses, but only to the extent that the business is conducted "on-farm." This limits financing for many agricultural service operations. For example, a Farm Credit association is currently evaluating a forestry equipment sales/service company which has requested a line of credit. The service segment of the business is eligible under the farm-related business guidelines, but this accounts for only a small percentage of the company's total sales. For the borrower, his/her financing alternatives are limited because of the inability of the System to fully compete because of the current limitation.

Authorize System institutions to do rural community infrastructure lending.

Many rural communities have credit needs that can no longer be met under Federal programs, but are also not large enough to attract the interest of investment bankers. If authorized to do so, System institutions could assist in financing rural community development projects including wastewater treatment facilities, water treatment systems, community health centers, community fire departments, etc., and with the addition of Federal guarantees, other communities could be helped.

TESTIMONY OF

ROD NILSESTUEN, CHAIRMAN

NATIONAL RURAL COOPERATIVE DEVELOPMENT TASK FORCE

Mr. Chairman and distinguished members of the Committee:

I appreciate this opportunity to appear before you today to discuss the important issues relating to the condition of our rural economy, the actions which must be taken to restore vitality to rural America and the role cooperative business can play in rural revitalization.

I commend this Subcommittee and I appreciate the active, concerned leadership role you are taking on this important issue. The cooperative community offers you our full support.

Although I am Executive Secretary of the Wisconsin Federation of Cooperatives, a general trade association for cooperatives of all kinds in Wisconsin, I am here today as 1st Vice Chair of the National Cooperative Business Association (NCBA) and Chairman of the National Rural Cooperative Development Task Force. NCBA is a national trade association representing all types of cooperative business. Over 90 million Americans have joined together in cooperative businesses to improve the economic well-being of their members. Cooperatives are involved in every type of business activity which include mutual insurance companies, credit unions, small business cooperatives, agricultural marketing and supply cooperatives, finance cooperatives, consumer goods and service cooperatives, rural electric and telephone cooperatives and a variety of cooperatives involved in health and child care, telecommunications, housing and many other businesses. A great many of these cooperative businesses have their roots in rural America and have experienced the same prolonged economic downturn felt throughout the rural heartland. We assembled the National Rural Cooperative Development Task Force, comprised of individuals representing every co-op sector, because cooperatives have a direct interest in a revitalized rural economy. We know that with the diversity of cooperatives and their locations in every state and virtually every county and community, cooperatives can play a major role in this effort.

Mr Chairman, your letter inviting the Rural Cooperative Development Task Force to testify before this subcommittee requested that we address three important issues:

1. Specific proposals or recommendations for rural development legislation;
2. How these proposed provisions would be financed; and
3. The role which the cooperative community would play in implementing these recommendations.

Let me begin by reviewing the successful record cooperatives have in meeting the needs of the rural community.

It is widely recognized that cooperatives provide individuals an opportunity to take advantage of America's free enterprise economy. It's also well known that the cooperative model is an ideal mechanism to overcome the principal competitive disadvantage of rural areas, -- fewer people/lower population densities, and the resultant higher service costs and smaller markets. Cooperatives can aggregate capital, people, business and member-user inputs/outputs and services into large enough units to be economically competitive.

When the need was to provide electric and telephone service to rural people, who lagged a generation behind their city cousins, could catch up and take advantage of this powerful new technology, it was the co-op model which was used to defeat the twin obstacles of high cost and low return from stringing lines over the many miles to the low density populations of rural America. When the need was to provide farmers and their organizations with dependable and affordable credit especially designed to deal with the cyclical nature of agriculture, the cooperative form of business was used and Production Credit Associations, Federal Land Bank Associations and the Bank for Cooperatives were formed. And, when farmers needed collective marketing power to deal with the large packers, grain traders, the railroads and giant food industry cartels, agricultural co-ops for marketing milk, grain, fruit, livestock and other farm commodities were formed. And with them farm supply and input organizations. Today the names Land O'Lakes, Unity Equity, Sunkist, Agway, Farmland, Southern States, Mid-America Dairymen, Harvest States, and CENEX are widely known. Yet, almost every one of the local co-ops which became a part of these current industry leaders, was formed with the help of a local Extension agent. That's because fifty years ago cooperative development was a major component of the economic development policy of both federal and state governments.

Through the combined impacts of the Capper-Volstead Act, the Agricultural Marketing Act of 1929 and the Extension System, together with farm credit, REA, and credit union enabling legislation, a very successful system was created throughout the nation. It was locally-based and democratically controlled, yet by networking many local organizations together into regional cooperatives, it had the size, resources, and expertise to successfully compete in interstate commerce.

Today, no one would dispute the fact that without this incredible and diverse system our family farm system, and indeed, rural America, would be much different.

The Congress and policy leaders 50 years ago were also astute enough to recognize that not only was it important to provide the technical and financial assistance needed to start up new cooperatives, but systems for continuing information, education, research and assistance were needed if these new cooperatives were to survive, thrive and grow.

And so, for many years every state and land-grant university and Extension system had a good number of cooperative and marketing specialists working closely with their co-op communities. Although their work is perhaps not as widely recognized as the results of agronomists, or plant and animal scientists, university cooperative and marketing specialists have made similarly large contributions.

Unfortunately, in recent years, many of these resources have been allowed to atrophy and wither away. Many states now have little or no university or Extension specialists with cooperative expertise.

The results of this policy have been dramatic. Although the problems in rural America are perhaps greater than ever, the publicly-based technical, educational and research resources which would help provide cooperative innovation and responses have almost dried up.

Fortunately, our experience in Wisconsin has run counter to this trend. We've worked very hard to maintain a strong support system for cooperative growth and development. And, because this has been the case, with the expenditure of some energy, together with some innovative new approaches and a very modest re-investment of public resources, we've been able to not only maintain a strong system of co-ops which do over $10,000,000,000 worth of business in Wisconsin each year, but we've been able to provide co-op responses to the major needs facing rural communities: health care, housing, educational opportunity, child care, employee ownership, senior care, and competitive main street businesses.

Four years ago, with the help of a small seed grant from the State of Wisconsin, matched with investments from the co-op community, we established the Wisconsin Cooperative Development Council. The Council, an affiliate of my cooperative trade association, operates largely on a fee-for-service basis, providing feasibility studies, business plans, organizational help, financial packaging and market and other management assistance to people who want to form new co-ops and those that want to expand or diversify. We combine this with the Extension, education and research capacities provided by the University of Wisconsin, through the University Center for Cooperatives, to create the climate and the resources necessary so our cooperatives can provide new services, grow, innovate and meet the emerging needs of rapidly changing rural communities.

We believe our successes in Wisconsin and the long track record of rural co-op development throughout the country are strong, well-documented evidence of the efficiency and viability of cooperative approaches to rural development needs.

Furthermore, intelligent use of the extensive resources of the broad-based and diverse cooperative system may be one of the best ways to leverage the rather modest amount of federal dollars into a much larger rural development effort.

Similarly we believe that re-positioning and re-invigoration of a number of existing public entities which serve rural people may be among the most cost effective of the available approaches. The programs of the Extension systems, our state colleges and land-grant universities and vocational schools can all be better targeted, and better utilized, to achieve rural development goals.

Based on these general premises we would therefore urge your careful consideration of the following specific recommendations:

A. SPECIFIC PROPOSALS FOR RURAL DEVELOPMENT LEGISLATION

Technical Assistance

Most of the significant legislative proposals advanced to date have recognized the indispensable role of having quality business-assistance resources readily available and have accordingly included significant technical assistance titles. To our minds the best of these proposals contain maximum flexibility and take the form of matching grants with state and/or local government. Such grants would be available on a competitive basis to any appropriate and qualified private or public entity which demonstrates the commitment and capacity to provide assistance and support of various kinds to new and/or expanding rural businesses. Because conditions, resources and needs vary greatly from state to state and between regions of the country, a system which is flexible enough to work with whatever organizations or entities are best equipped to provide the kinds of assistance needed on a long-term basis is preferable.

The Senate Agricultural Committee's proposed Rural Partnership Act of 1989 takes such an approach. Our experience in administering our own technical assistance company in Wisconsin leads me to conclude that this kind of approach not only works well, but if properly structured, can be cost effective too. By investing in human capital or expertise rather than in specific projects, the federal government is creating the capacity to do thousands of projects of many kinds throughout the country, every year.

Our experience has also shown that there is a great demand and need for specific technical assistance to cooperatives. We would thus strongly urge cooperatives be specifically included in any technical assistance provisions, and that further, a portion of such funds be earmarked for cooperative development.

We also support one of the basic thrusts of the Rural Partnership Act of 1989 which focuses on enhancing the USDA's role in this area utilizing the Extension service. Significantly expanding Extension's ability to work effectively at the local level in areas beyond production agriculture would be another important step in expanding the information base and networking capabilities of local business resources which are so needed in rural areas.

For all of the reasons noted earlier, the Task Force strongly recommends the establishment of a National Center for Cooperative Research, Education, Training and Development. The Center would be the focal point for the research, study and education so necessary if cooperatives are to provide the innovation and services rural people and communities need. Such a Center would deal with real issues and real questions. For example: 1) What are the cooperative advantages to main street businesses in utilizing purchasing co-ops to enable them to make mass purchases and obtain volume discounts? 2) In the face of rapid consolidations in the meat packing industry throughout the Farm Belt, what co-op marketing structures and approaches would be most effective in helping maintain real competition for livestock producers and family farmers? 3) How can ESOP's and employee ownership be best used to help keep good businesses and jobs in smaller communities?

The Center would be located at a land-grant university with a demonstrated commitment to cooperative enterprise. To achieve real national outreach it would be tied to a system of regional centers established in appropriate university or college settings throughout the nation. States in which centers were located would be required to provide a portion of the funding of the centers.

Credit

Every review of rural development clearly demonstrates the vital, irreplaceable role of credit. However, given the current restraints on federal expenditures, we believe that emphasis should be placed on providing incentives and opportunities to existing lenders to become more involved in rural development and business financing. I will comment here only on the role of cooperative lenders in this process. We believe significant opportunity exists to finance much rural business expansion and community development through expanding the lending authority of the Bank for Cooperatives, the National Cooperative Bank, credit unions, and rural electric cooperatives. The effectiveness and reach of such initiatives would be enhanced if they included selected loan guarantees.

Also, as the Rural Partnership Act of 1989 and other proposals indicate, there is a need for a well-structured revolving loan program. This would be especially helpful in providing early seed funds for business planning and start-up capital, two items which are extremely difficult for new rural businesses to obtain.

B. HOW THESE PROPOSALS WILL BE FINANCED

Given the history of rural development over the past decade, any recommendation must take heed of recent history. We should, however, note the role of this committee and you, Mr. Chairman, in ensuring that the Budget Resolution of fiscal year 1990, for the first time in a number of years, creates funding for some new rural development initiatives. We appreciate your efforts and leadership.

As stated at the outset, our entire testimony is predicated on the premise that federal funds for rural development and most other initiatives will continue to be severely restricted. In addition, experience has shown that most local development problems cannot be solved by federal spending which lacks local support and commitment. It is for this very reason that we believe that cooperatives offer a significant strategic rural development opportunity. The expertise and resources available through cooperatives may be impossible to duplicate at any cost. Our proposals aim at tapping this expertise and those resources in the most effective ways possible.

In all cases this means ensuring local and/or state partnerships and investments. After all, in the final analysis, development is by definition local, and therefore a strong element of local involvement and initiative is a must for success.

C. THE ROLE WHICH COOPERATIVES WOULD PLAY IN IMPLEMENTING THESE PROPOSALS

The proposals presented here are all based upon successful public and/or private sector experience.

If endorsed by this Committee and enacted, the cooperative community stands ready to carry out the programs in the rural communities we serve. To a large extent these proposals build upon and support existing rural development activities of cooperatives.

The problems facing rural America are great. Rural hospitals, small businesses and local schools are finding it more difficult to compete. Imagine the possibilities if ten local hospitals formed a rural hospital cooperative to share expensive equipment and medical specialists that were previously unavailable. Imagine main street business owners joining together in a purchasing cooperative and buying in volume so that they are now able to compete with the large chain stores like K-Mart and Wal-Mart. Imagine rural school systems joining together in a telecommunications cooperative to provide interactive educational opportunities not otherwise available in small rural school systems. These are not imaginary examples of opportunities cooperatives offer rural America; they are real examples of how the cooperative form of business can be used to provide basic services to rural citizens. Each of them exists in my home state right now. Our proposals can help make these types of cooperatives flourish in your state as well.

Please know we greatly appreciate the leadership of this committee on this important issue and be assured that the cooperative community and the strong organizations which represent them will be working hard to make these proposals reality.

Mr. Chairman, and members of the Committee, I appreciate this opportunity to appear before you today. Again, let me emphasize my appreciation and support for the leadership you are showing in addressing this important matter. NCBA will give the highest priority to supporting legislative proposals of this Committee developed along the lines discussed this morning. We stand ready to help you in your task of assisting rural communities to grow and regain their vitality.

Thank you for providing this opportunity to discuss this issue of national significance.

STATEMENT OF RONALD D. KNUTSON
AND DENNIS U. FISHER ON
NATIONAL RURAL DEVELOPMENT POLICY
BEFORE THE SUBCOMMITTEE ON
CONSERVATION, CREDIT AND RURAL DEVELOPMENT,
JUNE 15, 1989

We are glad that this subcommittee is holding these hearings in preparation for new national rural policy legislation. Over the past two years, we have provided leadership for a series of workshops designed to move toward a consensus position on rural policy among approximately 700 rural leader participants. These workshops included papers written by experts from 22 land grant universities, reactions of 39 rural development practitioners who responded to the papers, and deliberations of 700 participants who grappled with issues, options and consequences in round table discussions.

We found that while the rest of America has experienced relative prosperity, rural communities have been in a general state of economic decline. Economic adversities in rural America have been revealed in the deterioration of main street businesses, the closing of hospitals, the relocation of medical doctors, the inability of rural schools to attract quality teachers, the decline of the rural population, and the erosion of the tax base. We found that state and local governments have been unable to reverse these conditions because they lack resources. In addition, the national benefits to be realized from a more productive rural economy are greater than those experienced by any local or state government unit -- thus explaining part of the underinvestment in rural America. The remaining underinvestment can be explained by a lack of resources with state and local governments facing increasing challenges and decreasing rural tax bases.

Our testimony is divided into four parts: the rural situation and problems, the inadequacies of current policy, the policy and program needs as seen by the workshop participants, and some ideas for paying the bill.

Rural Situation and Problems

Rural America faces a diversity of problems. In the South, the regional planning committee identified the major problem as being an inadequate rural education system although job development ran a close second; in the Northeast, it was managing change; in the North Central region, the major problem was decision making capacity for rural government and business; while in the West, it was the management of public lands.

This divergence of primary problems illustrates the diversity found in rural America. Rural areas are no longer dependent solely on agriculture, but on manufacturing, forestry, mining, energy, retirement, and tourism in addition to agriculture. This diversification has not resulted in economic stability for two reasons. First, these industries have been highly susceptible to the vagaries of world markets, exchange rates, and monetary and fiscal policies. Second, while collectively rural counties appear diversified, groups of counties are highly specialized, depending on a single source of income. Thus a decline in a single industry impacts large multi-county areas.

During the 1980s, the gap between rural and urban income widened as rural income fell below three-fourths of urban income. While, traditionally, unemployment rates have been higher in urban than rural areas, this is no longer the case. High rural unemployment and lower incomes mean higher poverty -- 17 percent of the residents in rural America had incomes less than the poverty level versus 13 percent in urban.

Selective out-migration has taken a toll. Except for the 1980s, population has been declining for many years in most rural counties. Those who migrate from rural to urban areas tend to be younger and the better educated. The remaining population is less well educated and has a higher proportion of younger and older people -- each with their unique problems. At the same time rural hospitals are closing, and rural schools are stressed and their performance is being questioned.

Conditions in rural America vary from one part of the nation to another. Counties classified by USDA ERS as being retirement destination and tourism dependent counties have done reasonably well compared with other rural counties. Many rural counties in the West are characterized by large distances and sparse population while some others in the East are experiencing population pressure. Thus solutions must be flexible to accommodate the extant diversity of rural America.

While the mix was different from area to area, workshop participants identified and ranked the five most critical problems facing rural areas as follows.

- education
- economic opportunities
- infrastructure
- health care and delivery systems
- public and private decision making capacity

Federal Policy Inadequacies

Federal policies have been largely unresponsive and not well tuned to the conditions that exist in rural America. The emphasis has been on agriculture, infrastructure, and untargeted national programs which were designed for urban areas and often discriminate against rural areas. Farm programs will not solve the problems of rural communities because farm income is no longer a dominant force in most rural counties. Additionally, a significant proportion of agricultural supply and agricultural processing and marketing activities are located outside of the rural areas so the impact of farm receipts and expenditures leaves rural areas quickly. If farm programs were the solution, record farm program expenditures over the past several years should have yielded rural community prosperity.

Infrastructure policy has emphasized roads, bridges, industrial parks, water treatment, and waste disposal. This narrow emphasis has ignored problems of rural health delivery, the inequities of rural schools, and the need to update rural communication systems.

Additionally, infrastructure development and industrial recruiting have been predominant forces in rural development often resulting in unbalanced investments. Lack of complementary investment in human capital projects has resulted in lower returns to the infrastructure investments.

National programs designed to deal with poverty, health care, education and business development have discriminated against rural areas. In 1985 rural counties received an average of $2,478 per capita in federal funds while urban areas received $3,192. The assumption has often been made that it costs less to provide services in rural areas than in urban areas. Workshop participants disagreed. Inequities in medicare and medicaid is one of the causes of the rural hospital crisis. Likewise, discrimination exists in the funding of rural schools. Often this discrimination is not overt but a matter of convenience. That is, it is often more convenient for both the recipient and the provider to deliver services in urban areas than in rural areas -- simply because of population density and the distance involved. The result is the need to target national programs to address rural problems more effectively.

During the 1980s, a policy generally called the New Federalism shifted the focus of decisions from the federal to the state and local levels, closer to the people directly familiar with the problems. While this policy may have been well conceived from a national perspective, it hit rural governments at the wrong time -- when the tax base was declining in value. As a result, the funds simply were not available to deal with either the new responsibilities or those which already existed.

Federal Policy and Program Needs

Out of the rural issues and inadequacies of current rural policies arose a consensus on rural policy needs in three areas including programs to build human capacity, rural infrastructure, and expand rural business.

Human Capacity

The highest priority identified was the initiation of a long-run program designed to build the capacity of rural people to address their problems, attract business, and, thereby, reverse the pattern of selective out-migration. This requires aggressive programs designed to create equity in rural education, reduce rural illiteracy, and develop decision making capacity. Such long-run goals cannot be accomplished over night, but should be initiated as soon as possible. Specific suggestions for the achievement of these goals include:

- ■ Target a larger share of the federal education budget toward rural schools designed to foster technological competitiveness and innovative ideas such as distant learning.
- ■ Target rural schools to create funding equity.
- ■ Increase rural school involvement in job training and elimination of illiteracy.
- ■ Initiate a pilot literacy initiative in the WIC program which already includes a nutrition education component.
- ■ Expand JTPA job training programs to include increasing literacy and basic skills training and target to the needs of rural areas.
- ■ Provide increased Extension Service/USDA support for programs designed to increase public decision making capacity.
- ■ Provide increased support for existing institutions which provide technical support for local government - Councils of Government, Economic Development Districts, etc.

Rural Infrastructure

Continued federal programs in infrastructure development was considered to be an important component of future rural policy. Participants emphasized the need to expand and balance physical infrastructure to include telecommunications and medical delivery systems.

The need is not for large federal grants but, rather, for a new set of incentives designed to encourage private investment in rural infrastructure. Such incentives might be provided through lower interest lending authority through REA, FmHA, SBA or the Farm Credit System.

- Create incentives for private investment in new infrastructure which would give rural areas the opportunity to compete in an information based economy. Particular attention should be given to telecommunications technology.
- Provide incentives for private restructuring of the rural health care delivery system to overcome the disadvantages of distance and lack of access to specialties. Establish access for the rural population to a minimum level of health care services. Remove the rural-urban inequities in Medicare and Medicaid and target rural areas for a larger share of federal health dollars.
- Make federal support for new and traditional infrastructure investments contingent on matching state and local commitment with flexible guidelines.
- Establish state-federal incentives for local governments to re-evaluate their structure, revenue authority, and fiscal capacity.

Rural Business

Rural business development initiatives need to place increased emphasis on programs designed to create and effectively carry out good ideas. The key to rural business development is the retention and expansion of existing businesses. Business recruiting and infrastructure development activities are important but developing existing businesses has more predictable results. Program priorities for accomplishing these desired ends include:

- Increased emphasis on rural business management and entrepreneurial education. Enrollment in management training courses might be tied to federal loans and loan guarantees. Existing institutions should be funded to provide such training, eg. community colleges, distance learning from business schools, Extension/USDA/, etc.
- Technical assistance to rural businesses is needed in such areas as market analysis, operations management, and financial management as a service accompanying federal loans and loan guarantees. Existing compatible rural institutions should be funded to provide these services.
- Increased funding for federal loan guarantee programs with targeting for rural businesses. Training and technical assistance will be needed to insure that rural financial institutions are prepared to access these programs.

Paying the Rural Development Bill

Rural development requires long-term commitments. These commitments do not necessarily involve large up-front costs. A good start and considerable progress can be made by using a combination of targeting existing programs with some redesign to meet rural needs, matching grants, private incentives, and changes in priorities. Specific ideas for funding rural development include:

- Target rural health and rural education for equitable funding.
- Require state and local matching funds commitments on all federal grants, loans, and loan guarantees.
- Provide incentives for private investment in telecommunications and rural health delivery systems through lower interest loans and loan guarantees.
- Satisfy needs for training in decision making capacity and management through matching fund incentives to Extension/USDA.

Need for Action

Reversing the decline in rural America requires a shift in priorities and immediate action. While costs will undoubtedly be involved, if ignored, the requirements will be greater and costs higher in the future.

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RURAL ECONOMIC DEVELOPMENT

TUESDAY, JUNE 20, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 10 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Penny, Stallings, Harris, Sarpalius, Long, Coleman, Gunderson, and Combest.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Francie Monaghan, clerk; Bill Cherry, Joe Dugan, and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The hearing will come to order.

Today is the fifth hearing this subcommittee is conducting concerning rural development. No doubt, we have heard a wealth of good proposals during the past 2 weeks and we look forward to hearing additional recommendations throughout the remaining 2 weeks.

Essentially, the testimony we have received to date has confirmed that local institutions and organizations are indeed in a position to help restore economic vitality within our rural communities. The most important catch, though, is the need to provide these groups with the proper directions and appropriate tools necessary to handle this chore. We have certainly learned that the wisdom concerning rural development is not centered here in Washington.

For the answers and valuable guidance, we need to develop comprehensive policies based on the input from those who live and work in rural America. This will ensure that Federal programs work in tandem with State and local efforts.

With that in mind, this morning we will hear from two organizations with a specific mandate to respond to the needs of State and local policy leaders. Joining us will be representatives testifying on behalf of the National Association of Development Organizations and the Council of State Governments.

Financing for rural development will naturally be one of the major driving forces behind any comprehensive package. Therefore, we will receive some ideas from the American Bankers Association, which represents those who are clearly major participants in the identification of investment opportunities throughout rural America. We cannot develop any initiative in this area without the participation of the American agricultural community across this country.

Joining us this morning will be a representative from an organization known as Communicating for Agriculture, which is located in Minneapolis, MN. We will also hear from the dean of the cooperative extension department at the University of Wisconsin, at Madison. Finally, we will receive comments from a member of the Nebraska Ethanol Authority and Development Board.

I welcome our panels of witnesses this morning, and I am looking forward to hearing their testimony.

Mr. Harris.

Mr. HARRIS. Thank you, Mr. Chairman.

I, too, want to commend you for this hearing and the importance of the subject and at the proper time, I would like to be recognized to introduce one of my constituents, Mayor Bob Lake, from Moundville, AL, who is on the first panel.

Mr. ENGLISH. Indeed, we will. I will take the opportunity to call our first panel up and the first member of the panel is the Honorable Guy Hylton, who is mayor of Elk City, OK, testifying on behalf of the National Association of Development Organizations here in Washington.

I will recognize Mr. Harris to introduce our next witness.

Mr. HARRIS. Thank you, Mr. Chairman.

It is my privilege and pleasure to introduce Mayor Bob Lake, who is the mayor of Moundville, AL, a good friend of mine, a person I have known for many years, and a person who has been very active with planning and development and, especially as it applies to rural Alabama. I know that he will have some words to share with us that will be helpful to us as we explore the problems of what to do to revitalize rural America and rural Alabama and, Mayor Lake, we look forward to your testimony this morning and I want to welcome you to Washington.

Thank you very much, Mr. Chairman.

Mr. ENGLISH. Thank you. Let me say that your complete written testimony will be made a part of the record and feel free to summarize that testimony.

Mayor Hylton, we will let you start off.

STATEMENT OF GUY HYLTON, MAYOR, ELK CITY, OK, ON BEHALF OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

Mr. HYLTON. Thank you, Mr. Chairman. I would like to thank the members of the Subcommittee on Conservation, Credit, and Rural Development.

I am Guy Hylton, mayor of Elk City, OK, and I am also a board member of SWODA, which is the Southwest Oklahoma Development Authority. I am also representing our national organization, NADO, which is the National Association of Development Organizations.

You have my written testimony, but I would like to summarize a few points in it. I don't want to belabor it, but we feel it is real important for rural development at this time. We have seen the Senate bill and like parts of it and like most of it, but there are a few things we would like the House to consider, the subcommittee.

We feel like there is a real need for local control. We feel like the sub-State districts and planning organizations, or whichever—whatever the State calls them in their State—are the logical place to do this. They are already administering a lot of different programs in our area.

SWODA, for example, administers five or six different programs for aging and youth JTPA and that type of thing, so we would like local control in decisionmaking on—what we would like, really, is a revolving-loan fund.

I think the most important thing for me is the revolving-loan fund. If we could include a revolving-loan fund in this where moneys could be, either with a match or with a nonmatch, be made available so we could locate businesses and industry in rural America.

As you know, our banking situation in our part of the State is not in very good shape. Your hometown and my hometown both are in a position where it is hard for us to get the local banking institutions to help us on the matching part. So that is one thing I would like consideration in that area for, if we have a revolving-loan fund, for the match to be either maybe lower or graduated or on a case-to-case basis.

It is tough. We have right now an EDA grant that has been awarded to SWODA, $500,000, and cannot come up with the 25-percent match. So we have these programs that are good programs, but if you can't come up with the match, it is really not of any use to our area.

So I would like for you all to look at that area of either making the match part more lenient or on a case-to-case basis or on some kind of sliding scale that we could live with and really do some good with.

In the State of Oklahoma, it is unconstitutional for the State to use—I mean, for us to use State funds to be part of that match. So it really hampers us in trying to come up with the match.

As you know, our region has had a 74-percent drop in Federal funding. We feel like there is a real dichotomy in the rural and urban areas. They get entitlements, where the rural areas don't get entitlements. The larger towns and areas get entitlements and we don't, so we feel like there is a need if we are going to keep people, so to speak, down on the farm, if we are going to keep people in rural America and keep people in jobs, and as you know, in your area and my area, most farmers now work out somewhere else or their wife does. We need jobs for those people to help save our family farms.

I feel like the revolving loan fund would be a great tool to attract industry to our area if the match was right.

In our region alone, we have lost 15,000 jobs in the area since 1980. That is a 24-percent decline. Some of that was in oil and gas and some of it was in farming.

So there has been a 24-percent decrease in our area, so we feel like when the economy gets to that point where you are down to that point and that many people moving out and the economy getting that low, it becomes a real problem to come up with the match. If we do a revolving-loan fund, we would like to see it more lenient than what is in the Senate bill.

We do strongly support the Senate bill because we feel like, at this time, it is the first moneys for rural development in a long, long time and we would like to see something done this year. We think if we wait until next year, the rural development money will get lost in the farm bill and get lost in the cracks and it really is there this year. We would like for it to come out of the House this year if it is possible. I think there is an urgency there—for our area, there is—and a real need to have some moneys available for attracting industry and small business and several other items.

So that would be my main thrust—would be the revolving loan fund. Most of the cities around Elk City and Elk City included have passed another penny sales tax just to keep their infrastructure up and are trying to be ready if industry does come in our area.

So the people are willing and have shown their willingness to put in moneys into their area. We are not asking for a handout, but we would like some help. I think it is going to take some Federal dollars, some Federal help, for our area and for all rural areas.

If we can help in any way to facilitate that and we feel like we are here today to point out these items, that maybe we can together make some kind of a rural farm bill work, rural economic development for all of America.

I would like to thank the chairman and the committee for allowing me to testify and I appreciate your consideration. We want to work with you in any way we can to make it happen for rural America.

[The prepared statement of Mr. Hylton appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mayor Hylton.

Mayor Lake.

STATEMENT OF ROBERT LAKE, MAYOR, MOUNDVILLE, AL, AND CHAIRMAN, WEST ALABAMA PLANNING AND DEVELOPMENT COMMISSION, ACCOMPANIED BY LEWIS McCRAY, EXECUTIVE DIRECTOR

Mr. LAKE. Thank you, Mr. Chairman, and members of the subcommittee, for inviting me to appear here today.

I am Bob Lake, mayor of Moundville, AL, and chairman of the West Alabama Planning and Development Council.

As we work to strengthen and diversify our local economy, your committee's rural development hearings are of great importance to our future.

Accompanying me here today is Lewis McCray, executive director of the West Alabama Planning and Development Council.

Mr. Chairman, you have my testimony, thus my summary will be brief and to the point. Basically what I have to say is let rural America compete. Give us a chance to be competitive in all areas of development. Keep existing programs, fund existing programs to an effective level. Keep our regional and planning development councils and strengthen them so that they may provide small local rural governments with the technical assistance that helps us share in the economic dreams of this country.

Mr. Chairman, where the rural areas do not have the financial resources, make a revolving loan program viable and effective for our areas. As a banker we have to sometimes take a chance with our customers and we are asking America take a chance with rural America. When you do this everyone will benefit.

Our young people can remain closer to home; our tax base will grow; we will provide America with products at a competitive cost in today's world market.

Mr. Chairman, I want to thank you for the opportunity to appear before you and your subcommittee.

[The prepared statement of Mr. Lake appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you, Mayor Lake. I appreciate your fine testimony.

Guy, I noticed in your testimony you were mentioning the issue of matching funds, and, of course, I think that the question of matching funds is you have to have something to match with. So if you don't have any matching funds, what do you do? If you have a program based on matching funds, aren't you pretty much out in the cold?

Mr. HYLTON. It depends on the match.

Mr. ENGLISH. If you take the city of Elk City or the State of Oklahoma, do you have funds available to be able to take on major——

Mr. HYLTON. The only way we could match is if the industry that was coming or was interested was willing to put some of their money into it to make the match.

Mr. ENGLISH. But the kind of competitive situation——

Mr. HYLTON. Or we had some other way to match it.

Mr. ENGLISH. The city does not have a large—the city of Elk City does not have a large pool of money——

Mr. HYLTON. No——

Mr. ENGLISH [continuing]. To match.

Mr. HYLTON [continuing]. They sure don't.

Mr. ENGLISH. So any program, then, that is based on matching, unless the industry that is coming in wants to come up with the money, Elk City, then, couldn't take advantage of it, is that right?

Mr. HYLTON. That is quite right.

Mr. ENGLISH. So basically what we find in any program that is based on matching funds is a program that is primarily going to be available to those communities that have money or those States that have money.

Mr. HYLTON. Yes, I understand that.

Mr. ENGLISH. So the States that are economically troubled, it is almost in direct proportion, so it is a sliding-scale thing. If your State has economic problems, you can't take advantage of the program.

Mr. HYLTON. That is why we are asking for leniency on that—or for you to come up with some—we are suggesting some kind of sliding scale——

Mr. **English**. Doesn't that mean that maybe we ought to seriously consider forgetting about the matching idea?

Mr. **Hylton**. That would be great with us. But I am just saying, if—the one that is in the Senate right now is matching. That is the reason I brought it up. It is a bill that we probably would have some trouble taking advantage of unless there is some compromise somewhere in committee.

Mr. **English**. So basically it is a bill that isn't going to do you a lot of good. Not in Oklahoma in Elk City, right?

Mr. **Hylton**. Not the way it stands right now.

Mr. **English**. So that is a bill that basically is going to reward those who are in good shape financially.

The rich get richer and the poor get poorer.

Mr. **Hylton**. I understand what you are saying. The only thing that I would say is, it is the first rural development money that has come down the pike in a long time. We support it for that reason and are going to be working toward an end to get the matching part either eliminated or more lenient.

Mr. **English**. You are talking about the money that has been allocated in the budget?

Mr. **Hylton**. Yes.

Mr. **English**. So it has been both in the House and the Senate.

Mr. **Hylton**. Right.

Mr. **English**. That is true——

Mr. **Hylton**. Of course, we would like to have no matching.

Mr. **English**. Yes. There is a budget authority, of course, it is up to the Appropriations Committee to determine how that money is going to be spent.

Mr. **Hylton**. I understand that.

Mr. **English**. They would focus on that aspect of it.

I think we would agree with you. We want to take advantage of that money.

Mr. **Hylton**. Right.

Mr. **English**. But also, we would like to see a bill that is going to help out some folks. If we have a bill over here on one hand that Elk City, Alabama, Oklahoma, a number of other States don't have the financial resources to take advantage of, it doesn't really do us any good, does it?

Mr. **Hylton**. No——

Mr. **English**. Might as well not have a bill, right?

Mr. **Hylton**. Well, there would have to be some compromise on the matching part to make it work for us, that is true.

Mr. **English**. Yes. But if there isn't any, might as well not even have a bill, right? Isn't that right?

Mr. **Hylton**. If there is no compromise, that is right.

Mr. **English**. Mayor Lake, in the State of Alabama, I notice that you are also chairman of the West Alabama Planning and Development Commission. One of the things that I know, at least in my hometown, is that there is also a serious information gap. How does a mayor of a small rural community find out what programs might be available in Washington that perhaps they could take care—take advantage of, that they might be able to apply to?

Where does he go to get assistance? In major metropolitan areas, you have urban planners and in big metropolitan areas, they can hire these people to do these kinds of jobs for them. What happens in a rural community? They don't have those kinds of dollars to bring in that kind of expertise and it pretty much falls on the shoulders of the mayor and the chamber of commerce or any kind of regional planning commission you might put together.

Have you all found the answer to that particular problem or is this an area that we should be focusing some of our attention on, as to how we provide that kind of information and expertise to rural communities, how we provide assistance to rural communities in those areas?

Mr. LAKE. Mr. Chairman, we depend heavily on our regional councils and regional commissions to provide us with that type of technical assistance. Smalltown mayors and small towns just do not have the expertise or the professionals on staff to provide that. We depend heavily on our regional commissions for that.

Mr. ENGLISH. Has your regional commission been able to meet that kind of a need or is there still a need for more assistance in that area?

Mr. LAKE. There is need for more, but they meet it as best as they can. They help us quite a bit in developing all our plans, long-term plans, short-term plans, grant applications or any other items that they can provide.

Mr. ENGLISH. Thank you very much, Mayor Lake.

Mr. Coleman.

Mr. COLEMAN. Mr. Hylton and Mr. Lake, I heard you mention the Senate bill. I hope that you are aware that there are many bills under consideration other than the Senate bill.

Mr. HYLTON. Oh, yes.

Mr. COLEMAN. I would address and focus your attention on a package of bills that I have introduced, which I think are very consistent with what I see in your testimony this morning. I would think your organizations would be supportive of many of them.

I, too, believe that this is not a community-by-community competition. For us to be serious about this, we have to have a regional approach of 5, 8, 10 or 20 counties, perhaps, working together in order to attract industry and business and retain what we have.

My bills provide the assistance to do that, as well as, I think, giving the States a leading role to play. The States certainly depend upon planning organizations and economic development organizations that both of you have mentioned your involvement with in order to frame a State rural development plan. I foresee and envision a requirement under my bill to assure that if there are any Federal funds coming, which there will be under our Guaranteed Loan and Grant Program, that they will be used in a very efficient manner and not scattered just for political purposes or other whims around a State. They need to be focused. If Elk City is the one that needs to have the assistance in that region, then we will do that.

But these are, I think, crucial policy issues that you ought to take a look at and recognize that there are other pieces of legislation which, frankly, I think, have better possibilities of getting support and perhaps enactment than others, have. It is not the only game in town, and I would hope that you would go back and look at our proposals and others on the House side that I think try to bring this focus together on.

Mr. **Hylton**. The only reason I mentioned the Senate bill is that it is the only one that has passed out of committee and we look at that for that reason. It is something that has happened recently.

The one reason I did bring up that I would like to see local control is sometimes it gets bogged down at the State level. If the area that these development planning districts represent is in need, and they are representing them very well in our area, a mayor cannot put on staff the people that these people have on staff to make it work. They are professional, very professional in our area.

We would like the local control of—and when I say "local control," I am not talking about a city or a town. I am talking about for the area district to make application and see that the funds are spent correctly. We urge oversight in all of the programs and this program certainly also. We want to see those dollars going to rural America spent well.

Mr. **Coleman**. I don't know that the States—the State of Missouri is doing some things, other States are doing things. I am not sure about Oklahoma, but it would seem to me that if States are involved with pass-through funding, that there is nothing to benefit them if they don't pass the funding through or make their own contribution with any programs that we might enact here.

Mr. **Hylton**. I understand that, but——

Mr. **Coleman**. Otherwise, we may be faced with the Federal bureaucracy, which is not as responsive as your State bureaucracy. I understand—I have heard rumors from time to time—happens here when funds are not used efficiently.

That is something we also have to figure out: the best delivery system. I would hope that whatever we do here is more than building on what we have done in the past, which really hasn't been that successful, I guess you both would say.

We need to really be creative; we need to be nontraditional; we need to utilize high technology; we need to help in educational programs; we need to run the gamut, not just your traditional focus that we have had in the last 20 years. I think you both subscribe to that as well, so as we work through this, it is interesting that you mentioned that you feel that we ought to move this year as opposed to waiting for a farm bill. That is something that we are trying to determine as to what the best time is. We also don't want to lose any of the budget allocation.

At the same time, we want some good legislation and one which is thoughtful. I thank you for those comments and I, too, would like to see something move probably sooner than later, but it is not just for me to say, it is for a lot of other people involved.

Thank you very much, both of you.

Mr. **Hylton**. Could I make a comment on that?

Mr. **Coleman**. Let me yield to my colleague here.

Mr. **English**. I guess the one thing I was a little bit—I would like to clarify this, Guy. You mention on one hand that the Senate bill isn't going to do Elk City, your town that you are mayor of, and the State of Oklahoma any good, but on the other hand, you are telling us that you want us to accept it as it is and——

Mr. **Hylton**. No, I didn't say that. I said——

Mr. ENGLISH. You are saying that basically you would like to see us do something other than what the Senate bill is?

Mr. HYLTON. I see it as a starting point and I would like to see some kind of compromise on the matching part or no matching part.

Mr. ENGLISH. Do you think it entails all the needs that we have in rural America, that that bill is the epitome or is it a bill——

Mr. HYLTON. No bill is the epitome, usually. I mean, there are always trade-offs. I am just saying that it is the first thing that we have seen in a while that has rural development money in it and we don't want it to die.

Mr. ENGLISH. Yes. We would agree. We don't want to lose that money. I think that this committee is going to do that.

Mr. HYLTON. To respond to Mr. Coleman, my problem with not using the development authorities that we already have or the development councils or whatever each State calls it is that we would be creating—I don't want to create another level of bureaucracy. In other words, we already have these people who have been administering Federal programs and doing a good job, in my estimation, from what I see—I am on the board and see some really good things happening from what moneys we do get, and they are judicious with their money.

So that is why I don't think—I wouldn't want to see us have another level of bureaucracy involved. I would like for them to apply to the Federal Government for the funds and administer them.

They are really very frugal with it. In our area, they are. That is why I would like to see those organizations to be the ones to administer it.

Mr. ENGLISH. Mr. Harris.

Mr. HARRIS. Thank you, Mr. Chairman.

I just want to echo what Mayors Lake and Hylton have said about the planning organizations, because I know firsthand, from seeing the West Alabama Planning and Development Council in action, that they do a good job. With the limited dollars that we have, we can't afford to create any more bureaucracies. What money that we can get, we would like for it to go on down to help those in communities like yours and like Moundville that need help.

I think that is what we are going to have to do. I know one of the problems in going around in my district—and I have a lot of rural area—is that a lot of the people don't know how to fill out these grants and applications and they are confused. They will fill them out and they will bounce them back and they won't tell them why. I am talking about the different agencies.

So I know in our area, Mr. McCray and Mayor Lake and other folks—they have planners onboard and people who are trained in that to help in preparation in preparing these grant applications and it saves a lot of steps and it certainly helps the different communities in their applications.

I certainly want to second your motion that we not get in the business of creating another level of bureaucracy and that we look for ways within the system now to get the precious funds that we do have available and then let's see what we can do to put some new life in our rural areas.

Thank you, Mr. Chairman.

Mr. **English**. Mr. Combest.

Mr. **Combest**. Mr. Chairman, I don't have any questions, but I do have a short statement I would like to submit for the record.

Mr. **English**. Without objection, the written testimony will be made a part of the record.

[The opening statement of Mr. Combest follows:]

STATEMENT BY CONGRESSMAN LARRY COMBEST

JUNE 20, 1989

MR. CHAIRMAN, ONCE AGAIN I WOULD LIKE TO THANK YOU FOR HOLDING THIS SERIES OF HEARINGS ON ONE OF THE MOST PRESSING ISSUES FACING SMALL TOWNS AND COMMUNITIES, ECONOMIC DEVELOPMENT. I ALSO WANT TO WELCOME OUR WITNESSES AND I LOOK FORWARD TO HEARING FROM YOU ON THIS IMPORTANT MATTER.

AS HAS BEEN SEEN FROM OUR PREVIOUS HEARINGS, RURAL DEVELOPMENT IS MULTI-FACETED IN SCOPE AND DOES NOT SUBJECT ITSELF TO EASY SOLUTIONS. HOWEVER, I AM CONFIDENT THAT THIS PANEL WILL COLLECTIVELY PUT TOGETHER A PACKAGE THAT IS WORKABLE AND BENEFICIAL TO RURAL AREAS.

ECONOMIC REVITALIZATION IS NOT A PROBLEM IN WHICH YOU CAN JUST THROW DOLLARS AT AND EXPECT THINGS TO GET BETTER. COMMUNITY LEADERSHIP, AND PARTICIPATION BY STATE AND FEDERAL ENTITIES IS ESSENTIAL IF WE ARE GOING TO MAKE A POSITIVE IMPACT ON SMALL TOWNS AND COMMUNITIES ACROSS THE NATION.

AS A PRODUCT OF RURAL AMERICA, I UNDERSTAND THE CONCERNS FACING THESE AREAS. I BELIEVE IT IS ALSO IMPORTANT TO POINT OUT THAT

THESE PROBLEMS ARE NOT NECESSARILY NEW CONCERNS, BUT ONES THAT HAVE BEEN THE CENTER OF ATTENTION FOR MANY YEARS. INCLUDED IN THIS LIST WOULD BE EDUCATION, WHICH MANY TIMES IS A DECIDING FACTOR FOR MANY PEOPLE WHO ARE LOOKING AT MOVING TO A NEW AREA. THIS LIST GOES ON AND ON, FROM HOUSING TO BUSINESS GROWTH OPPORTUNITY AND HEALTH CARE.

SINCE COMING TO CONGRESS, THE ISSUE OF RURAL HEALTH CARE, OR THE LACK THERE OF, HAS BEEN A MAJOR CONCERN OF MINE. I AM SURE THAT MOST MEMBERS OF THIS PANEL WOULD AGREE THAT ONE ISSUE WHICH MUST BE ADDRESSED IN TIMELY MANNER IS RURAL HEALTH CARE AND ITS IMPORTANCE TO RURAL ECONOMIC DEVELOPMENT. THIS PAST SATURDAY I HOSTED A RURAL HEALTH CARE CONFERENCE IN MY CONGRESSIONAL DISTRICT. THROUGH THIS MEETING WITH LOCAL, STATE AND FEDERAL OFFICIALS I BELIEVE WE ARE BEGINNING TO FIND SOME ANSWERS TO THE PROBLEM OF QUALITY HEALTH CARE. AS WE ALL KNOW, HEALTH CARE IS A MAJOR PIECE IN THE PUZZLE TO RURAL ECONOMIC DEVELOPMENT.

ONCE AGAIN, THANK YOU MR. CHAIRMAN, AND I LOOK FORWARD TO HEARING FROM OUR GROUP OF PANELIST.

Mr. English. Mr. Sarpalius.

Mr. Sarpalius. Thank you, Mr. Chairman.

Mayor Lake, you are also a banker?

Mr. Lake. Yes, sir.

Mr. Sarpalius. What can Congress do to help rural banks cope with some of the problems of delinquent loans?

Mr. Lake. That is a subject I did not expect to address this morning.

Mr. Sarpalius. I understand.

Mr. Lake. To be very honest with you, I think probably a revision of the bankruptcy laws would help in some manner.

Mr. Sarpalius. With the West Alabama Planning and Development Commission, are you doing anything that is kind of creative or new to try to help with rural development that you might share with us that might be something that other planning commissions and things could look at?

Mr. Lake. Sir, the West Alabama Planning and Development Council provides so many services. The chairman asked a while ago what technical services they offered. They are doing so many different things, especially in the area of rural health, programs for the elderly. Our agency is administering a lot of those types of programs. Transportation in the rural areas, especially transportation for the elderly that they can get medical services and reach the areas of the municipalities that provide those type services, doctors, hospitals, even the Social Security offices, that type thing.

I think that is important, especially in an area where you have a large senior citizen population. I think that is important to us. But they do so many other things. The most innovative item, I think, right now is they are offering to map all the water systems in our area, to where 1 year from now, 5 years from now, we will know where every waterline is in place that exists. For a new mayor, new people coming into a town, unless you have those types of records, and as you know, in small towns in America, we do not have all the computerized equipment necessary to keep track of all those things, and I think that is one service, but there are so many, really, that they help us with, so many technical services, that I could not tell you how valuable they are to us.

We really appreciate the expertise that we get from these planning development council and regional commissions.

Mr. Sarpalius. Who pays for this service?

Mr. Lake. It depends on the particular program, naturally, but in our elderly programs, the senior——

Mr. Sarpalius. I mean, how is West Alabama Planning and Development Commission paid for, the staff, or people that you have that work there? How are they paid for?

Mr. Lake. Each municipality pays dues to the organization and the dues are used to match the various programs for money.

Mr. Sarpalius. And that is made up of how many counties?

Mr. Lake. Seven counties.

Mr. Sarpalius. Seven?

Mr. Lake. Yes, sir.

Mr. Sarpalius. That is all I have. Thank you.

Mr. English. Mr. Penny.

Mr. Penny. Thank you, Mr. Chairman.

Mayor Hylton, if you were to pinpoint one program or activity that would be the most beneficial in stimulating rural economic development, what would the one item be?

Mr. Hylton. Again, I think it is the revolving-loan fund what we would like to have. I think we have missed some opportunities by not having the funds and—for example, we have an airbase in the middle of our district that has now turned into an industrial park. It is one of the largest runways in the world, yet we cannot attract industry to that area because we don't have the funds to build a wide-body hangar; we don't have the funds to do some of the things that these airline-type industries require.

We have been successful just of late in acquiring a company that refurbishes airplanes and they have gotten certified on like DC–9's, but that was a teeth-pulling process, which the chairman helped immensely in getting that for our State, but it has been a real hard road because there are not any funds there to do the kind of projects that are required to bring in industry

We are competing with some stiff areas. The urban areas have the ability to put together a $10 million deal. We don't have that ability. We have the longest runway—one of the longest runways—in the world sitting there, but we can't do anything with it because we don't have the ability to put together the deal.

If we had the revolving-loan fund, I think it would help immensely and—didn't mean to offend anybody by bringing up the Senate bill, but I just wanted to point out that we are just looking for some rural help and that is what we have seen so far.

That is why we are here testifying today, to ask for your help and see if there is any way we can help in getting that revolving-loan fund going in a way that can help us.

Mr. Penny. What new enterprises have you attracted to your community in the last few years and is there any pattern to the kinds of businesses that have originated in the last couple of years?

Mr. Hylton. There really is no pattern. We have been more successful in expanding small businesses [illegible] already have. We had a small computer company in [illegible] speak about Elk City because I know about it bes[illegible]ll computer company in Elk City and have not bee[illegible] any other businesses of that nature. So we decided we would go to work and help this company to expand.

They have expanded tremendously, about two or three different times. They are up to a level of about 40 or 50 people now, where they started out with 2 people just 4 or 5 years ago.

So that is where we have been most successful. We also have a company that makes disks for hard-drive computers, Dynaturn is the name of the company. We have helped them expand.

Mr. Penny. What kind of assistance did you provide?

Mr. Hylton. We helped SWODA, the Southwest Oklahoma Development Authority. They helped apply for small business and CBDG grants through the city sponsorship and that is tremendous help. They have a legal staff that helps put this together and really good people who have the expertise to put the packages together. They have been very successful for us in that area.

But we have only been successful in expanding what we already have. We are not able to attract something new.

Mr. PENNY. It has been your experience that it is difficult to get private sector financing for those projects in a community of your size?

Mr. HYLTON. Yes, very hard.

Mr. PENNY. I read in your testimony that you have lost most of your private financial institutions in the last number of years.

Mr. HYLTON. We haven't lost all of them, but whenever you lose one, the others tighten up tighter than a drum.

Mr. PENNY. Yes.

Mr. HYLTON. That has been what is happening. We lost a bank; several other towns around lost a bank.

Mr. PENNY. Aside from expanding the revolving loan fund, which again would be a government loan program, are there any ideas you might suggest as to how we could attract more money to rural areas through the private sector?

Mr. HYLTON. One of our biggest industries right now is our hospital. I mean, I hate to put that in the class of an industry, but the way the Medicare reimbursement is askew from the urban area to the rural area is pathetic and what happens is most of your older people live in a rural area. Most of our population—a lot of our population is older so they go to our hospital. Our hospital gets maybe 40 or 50 percent of what an urban hospital gets for the same services and we don't—we are not talking about—our hospital is pretty up-to-date. We have a linear accelerator for cancer treatment; we have nuclear medicine; we can do a lot of things that most small hospitals don't do and there are two or three other hospitals in our area that do those kinds of things, but they are not getting the fair share of—and what happens is we become Medicare hospitals and we cannot make it that way.

Mr. PENNY. That is very similar to the situation in my district. If this committee, instead of Energy and Commerce or Ways and Means, had jurisdiction over the formula for funding rural hospitals, I think you would see some relief rather quickly.

Mr. HYLTON. We appreciate you help.

Mr. PENNY. Unfortunately, we don't have that jurisdiction.

Thank you.

Mr. ENGLISH. Mr. Gunderson.

Mr. GUNDERSON. No questions, Mr. Chairman.

Mr. ENGLISH. Ms. Long.

Ms. LONG. No questions, Mr. Chairman.

Mr. ENGLISH. I want to thank both of our witnesses. You did a fine job and you gave us some excellent testimony.

Thank you very much, we appreciate it.

Mr. HYLTON. Thank you, Mr. Chairman.

Mr. ENGLISH. Our next witness is Mr. Michael Grove, who is president of the First National Bank of White Sulphur Spring, MT. He is testifying on behalf of the American Bankers Association.

Mr. Grove, we want to welcome you here today, and as we have told our last witnesses and want to repeat to all of our witnesses, if you would care to summarize your testimony, without objection, your complete written testimony will be made a part of the record.

STATEMENT OF MICHAEL GROVE, PRESIDENT, FIRST NATIONAL BANK, WHITE SULPHUR SPRING, MT, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. **Grove**. Mr. Chairman, and members of the committee, I am pleased to be here and participate in these hearings on behalf of the American Bankers Association, which is commonly known as the ABA.

Mr. Chairman, it is also good to see you again, following our meeting—our ag conference meeting in Des Moines.

My name is Michael Grove. I am president of the First National Bank in White Sulphur Spring, MT, which is located pretty much in the center of the State.

I also serve on our Governor's Council for Economic Development and I am a member of our local county planning board. We have worked very intensely, both on the county and the State level, for rural development.

The association membership comprises about 95 percent of the industry's total assets, including 5,000 agricultural banks. Approximately 85 percent of our members are community banks with assets of less than $100 million. There is a total of 14,000 banks with 62,000 outlets in every part of our Nation.

We are concerned about the current situation. For example, I am from a rural community of 1,500 people and a county of 2,500 in the center part of the State. Despite the serious efforts that I have seen my community make in which my bank has participated, I see continued erosion of population and economic activity.

I am not alone. Many other bankers in other communities share my concern. For that reason the American Bankers Association has made rural development one of the focal issues for 1989. I am pleased to assure you that the agricultural bankers division will have a major role in this effort.

I want to note that the ABA recognizes that the problems facing rural communities are interconnected. Education, health care facilities, that we just heard, and infrastructure systems and other factors are very much a part of any rural development equation. Credit is only one aspect of the total picture.

My comments are primarily directed as to the appropriate role for banks, but we are also involved in discussions with representatives from other key areas. We must work together in our communities and we should work together here at the Federal level as well.

Mr. Chairman, rural communities, especially those heavily dependent on agriculture and natural resources, are going through a period of wrenching change. As unemployment opportunities disappear, skilled workers and the young are migrating from rural to urban areas in search of jobs. Local governments in agricultural areas are faced with reduced tax bases and deteriorating infrastructures.

We commend this committee for holding this series of hearings to explore the difficulties facing rural America and to contribute to the development of policy initiatives to begin revitalizing our rural communities.

The problems that we have out there as far as diversity require that basic comprehensive financial intermediaries in those areas, which are the local banks, must play a central role in the investment process by providing credit to assist new businesses, also providing credit to encourage diversification in agricultural production and also to provide credit to fund improvements in education and local infrastructures.

Local banks have a major stake in the economic health of their customers and they are uniquely qualified to meet the credit needs of their communities.

Before coming to our bank, I was with the comptroller of the currency's office and can speak firsthand about the regulation. Our bank is no different than many of the other local community banks in that we make a number of loans that probably could be criticized from the outset. They lack a lot of collateral; they perhaps don't even have a proven source of repayment, but we do know those individuals. They live in our communities; we live with them.

I have a cement plant, as an example, in our little community that now employs seven full-time employees. We are 75 miles from the closest concrete plant. If we did not have that in our community, we would be at a severe disadvantage for new housing or any other new businesses to come in. It is a very marginal business. It has been classified by the OCC ever since we made the loan and probably will continue to be so.

We live with that loan. We think it is important to have that loan, which represents the business in our community, and we have others. We have a local cabinetmaker that is a very similar situation. But we can't have too many of those loans.

The problem that you just worked on last week, I think, focuses in on that with the savings and loan. You just worked through that problem and passed probably the most expensive bail-out in our country's history.

We are a regulated industry. We want to be a regulated industry and we have to be. So we have to live within the constraints of those regulations or, in fact, some of the problems that they talked about in Oklahoma, in your district, will come to bear on us. In our State, we have had some bank failures as well. We continue to be one of the States, behind Texas and Oklahoma, but Montana is up there as well with nonperforming loans.

I think banks can be expected to carry those. I think we do that, particularly the community banks, but we can't have too many. I know you don't want us to have too many and the regulation is out there.

My point here is that we must look carefully to what the real problems are in the rural areas and seek to craft these solutions. If we want to start new businesses from scratch, we need a better mechanism for getting venture capital into these rural areas, not necessarily loans.

If we want to lend money to borrowers without collateral or experience or at low interest rates as a public policy, then we should look at the appropriate mechanisms to do that while continuing to protect the safety and soundness of our commercial banking system.

For example, we should examine existing programs of the Small Business Administration and the Farmers Home Administration and consider the options for modifying and expending them, including loan guarantees and interest rate buydowns.

There are impediments to some of the involvements that result from these bank regulations. Therefore, we must identify carefully the goal that we seek and then look for appropriate means to achieve it. As we do this, we should not ignore the already existing goal of protecting the safety and soundness of our financial institutions.

The Federal loan guarantees offer one way to allow banks to provide the credit necessary to build a diversified economic base in rural areas while, at the same time, protecting the financial integrity of the banks.

Our industry has money to lend; we want to make loans; and I am here today to tell you that is what our message is, particularly rural community banks. Their loan-to-deposit ratio in the past has been between 70 and sometimes higher percent. It is not unusual now to find banks that are 30 percent loaned. Probably, on the average, they are 40 to 50 percent. So there is money in the banks; the banks do want to make the loans, but they want to be prudent in making those loans.

Our association has consistently supported limiting the use of Federal direct loans, believing that, instead, the guaranteed loans made through local lending institutions are a more appropriate way to provide credit to residents, to businesses and to communities.

Loan guarantees can be designed to suit various types of business need. For example, guaranteed line of credit offers a flexible for businesses to handle cash-flow problems and to assure businesses that their operating capital needs can be met by the local bank.

A Federal guarantee would allow a bank to extend such a line of credit even to new business ventures which might otherwise not have the necessary collateral to secure the loan to the satisfaction of bank regulators.

Further, since there was more than $750 million in guarantee authority appropriated but unobligated during the 1988 fiscal year for the FmHA Farm Guaranteed Operating Loan Program for agriculture, there was unobligated a guarantee authority could be programmed to the B and I Program, which is currently allocated only $96.4 million.

In recent years, the B and I allocation has been fully expended within the first few months of each fiscal year and that is the situation now. There are no funds left under that program, yet there is a surplus under the Agricultural Operating Loan Program. What we are suggesting is perhaps some of that authority could be transferred.

In addition, the FmHA Approved Lender Program for farm programs should be modified to create a certification process much like the Small Business Administration has presently.

Business in rural areas also need risk capital. We have heard that previously. Frequently, start-up business should not take on additional debt; they need equity. There are programs that now exist at the Small Business Administration that encourage banks and others to create small business investment corporations such as SBIC's. We would suggest that you look at those programs, study those and perhaps put incentives or enhancements on those that are already there particularly just for small communities. Make those programs more attractive in local communities than what are presently there. Give an incentive at the small community level.

In addition, other mechanisms for banks to provide debt and equity financing to businesses in rural areas should be explored. Presently, the FmHA is studying and has developed programs to allow the local bank to make their rural housing programs, as an example. In the past, they have been making these loans direct and the rate would be tiered down, based upon the borrower's ability to pay, sometimes as low as 1 percent. They are looking at letting the local bank do that lending. Again, we have the money to lend and simply buying that rate down with Federal funds.

One way or the other, the Federal Government is subsidizing that particular loan. They are doing it now and they could do it in a different way.

As the owners and managers of small business seek to start up and expand, they need not only access to capital, but sound financial advice as well. A financial plan is critical to the success of all business ventures, but may be beyond the reach of some small business people. One way to help local businesses gain access to professional financial counseling would be to assist each State's extension services and also the FmHA county offices to contract with local financial institutions to provide these services.

The Extension Service of the FmHA service could then act as a conduit through which businessmen in rural areas could tap the financial expertise of local lenders in drafting their financial plans. In today's financial world, there is an awful lot of liability on giving advice. Banks, and particularly working with small borrowers, are finding it more and more difficult to work at that level, and what we are suggesting is that there is a mechanism already in place that perhaps could be enhanced to give that to the businessmen, to be able to have him—they are doing it—FmHA right now is doing it for the farm borrowers. If we could transfer that—take that same concept and enhance it for the local businessmen. Many times, the local businessmen—what I see are people that are high-quality people committed to their businesses—know how to produce the product or sell the product, but have limited expertise in bookkeeping.

Many experts have stressed the need for improvements in rural communities' infrastructures to attract new businesses and to retain existing businesses. In particular, roads, water, and sewer systems, utilities, and health care facilities, are essential ingredients to support long-range economic growth.

Obtaining the necessary funds for such project is made more difficult for small towns because banks cannot underwrite the revenue bonds. What we would suggest is that, again, through Federal guarantees, the banks could provide the capital to do these programs, either as an individual bank or as a consortium of banks, to help do that. Many of the banks presently are doing that. Our bank right now is working with a CBG block grant for housing rehabilitation. We are providing an extra $100,000 and that local program is buying that rate down so that homeowners can receive 5-percent loans to fix up their houses.

Mr. Chairman, the events of the 1980's have already demonstrated that the health of a bank is linked to the vitality of the local economy. The banking industry, therefore, has an important stake in strengthening and diversifying the economic base of the small towns and rural areas across America. Bankers offer knowledge of local markets, financial expertise and a serious commitment to the revitalization efforts being made by your committee.

The local bank is already there, lives and knows the community and its people, has the funds to lend, wants to expand its business loans. Nobody can solve this problem alone. We are ready and willing to work hand in hand through public/private partnerships to assist our rural communities.

We look forward to working with you and your colleagues on these very important issues and I would be pleased to respond to any questions.

Thank you.

[The prepared statement of Mr. Grove appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Grove.

One of the areas, of course, that this committee focused a great deal of attention on some time ago was with regard to the 1987 Agricultural Credit Act and we have had a good deal of experience in that.

Our chairman of the full committee has joined us and, so, Mr. Chairman, I want to give you an opportunity to make any comment or statement that you would like to make at this time.

REMARKS OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. Thank you very much.

I apologize for not being here for the other part of the meeting and I regret to say I haven't had a chance to read the statements. I usually do before the meeting, but it has been a very hectic morning and I was out of town yesterday. What we are trying to do, and the chairman of the subcommittee and the members of the subcommittee are doing, is to review the whole aspect of rural development. One of those major areas is credit and the implementation of the Farm Credit Act, how it is working out there and the availability of resources for the rural areas, not only to the individual farming operation, but for the infrastructure. We want to have jobs out there, including the availability of jobs not directly in agriculture, for those that may nonetheless feel the call of the land and want to be out there.

This is very important to us. I was just visiting with someone from a national farm organization, but mostly they were from Texas. One of the farmers said, "I was looking for a 50-bushel an acre wheat and then 40 and then 30. I am down to 20. I can't go to the bank with that." This is one of the problems. We had a hearing in Amarillo basically on the drought, but it was opened up to the farm legislation, also. We had a group of very young bankers who weren't even part of the original hearing, but they volunteered to be there for any questions. They were very helpful and very enlightening to us to see from the other end, from the banker's end, how they work and how they cooperate. I know that the private sector bank, of course, is in a slightly different position than the Farm Credit System, but nonetheless, it is as vital and as important. I don't know what your testimony was, but I am sure it would not be too terribly different from the testimony we had in Amarillo or Kansas.

It is nice to see you are from White Sulphur Spring. I was there last year. I think you probably know Bill Galt, my good friend, whom I visited with.

Mr. GROVE. I sure do.

The CHAIRMAN. I went and looked at the national forests and parks. I didn't tell them I was coming or who I was. That is the way you find out things.

We welcome you and we are glad to have you here. You are from a very, very nice area of the country.

Mr. GROVE. It was nice to have you there and it was good for our community, too, because rarely do we get people of your importance there and we were proud to show that off.

Senator Galt has a beautiful place down there and Bill Galt has some of the best elk hunting in that area.

The CHAIRMAN. This is off the record, but I went to Montana and I said, "I'm here to hunt elk and I'm bringing my trusted rifle. I support Dukakis and Bentsen and I'm not going to vote for nobody that messes with my rifle and my ability to hunt." They didn't believe me. We lost the State and I missed an elk. [Laughter.]

Thank you, Chairman English.

Mr. ENGLISH. Thank you, Mr. Chairman, we appreciate it very much. Thank you.

With regard to the 1987 Agricultural Credit Act, of course, the concept of secondary markets came into play, as applied to the Farm Credit System and banking institutions.

In your view, do you think there is wisdom in pursuing the possibility of extending that concept to include rural development?

Mr. GROVE. You are speaking Farmer Mac?

Mr. ENGLISH. Yes.

Mr. GROVE. I think that is one of the most important steps that you have taken to facilitate, from our local level, the access of capital for the farmer. We see that as a very significant help in the long run of what we can do at the local level.

It puts the local bank into a situation where they can service the long-term credit needs that we were not being able to do before. There was not a good secondary market. Our local bank has long been the major long-term credit for rural housing, but we are not able to do that for long-term real estate loans for agriculture.

I think that the secondary market now, the Farmer Mac, is in its infancy. It is being designed at the present time. I think the rules are being developed and are close to being fairly specific for the underwriting standards, both for appraisal and for credit.

Speaking from the view that I have, and I believe it reflects the ABA, I think we would like to see that concept for Farmer Mac do what it was designed to do at the present time, to ensure that it is done properly, rather than bring new programs in, for example, business loans, if that is what you were suggesting.

I think that would be very appropriate in time, but not at this time. I think it is very important to have Farmer Mac done and done well, those loans be good loans and I think there is going to be a lot to learn, both at the local level, the poolers, and by the Farmer Mac Board, to assure that what your concept was in 1987 is delivered.

Mr. **English.** I guess I am having trouble understanding that, Mr. Grove. If it was a good idea for agricultural loans in 1987, why isn't it a good idea for rural development loans in 1989?

Mr. **Grove.** I think that it is a good idea for rural development loans in 1989. The problem is we have not done the 1987 concept—it is not implemented yet. I guess what I am suggesting is let's do that first, have it in place and then if that all works well, then bring these other programs into being.

Mr. **English.** So there is a question in your mind as to whether or not Farmer Mac is going to work well?

Mr. **Grove.** There is no question in my mind. I think it is going to work very well, but there is a question in many others and I think it is important that we do it, that those loans be made and be made right and be good loans to be put on there and the real estate side of it is something that we are very familiar with. Presently in the secondary market, we have Ginnie Mae and we have Freddie Mac and Fannie Mae. This is not very much different from that as far as the real estate loans, the structure of those. If we begin now to bring in business loans, I am just suggesting that it might confuse this infancy that we are on with Farmer Mac.

I think the infrastructure loans, as far as the water and sewer programs, is another excellent place for Farmer Mac to look to.

Mr. **English.** That isn't going to do much for us right now as far as rural development. One of the keys, of course, to any rural development is it takes money. We must have money to make this thing work. We can all talk about what a great idea it is. We talked early about matching funds. If you don't have any money to match with, there is nothing you can do. There is no sense in having a program. Might as well forget it.

That is pretty much true with the rest of this. We talked about $300 million. That is budget authority. Budget outlays are going to be a good deal less than that for this next year.

You can probably take $300 million and that wouldn't handle rural development in one State.

Mr. **Grove.** I agree with you.

Mr. **English.** That is a drop in the bucket. You can't even call it seed money. So the question that you come down to is where are we going to get this huge amount of money to deal with rural development needs of this country. I guess we are going to have to turn to you, as our banking expert, to tell us where we get those billions and billions of dollars for rural development.

Mr. **Grove.** What we are here to say is that we want you to turn to us. We have the money to lend. Many of our banks, the small community banks, the people have left. The loan demand is very low.

Mr. **English**. But we have bank examiners saying, "No, no, you're not, we're going to write you up if you make one of those loans in a rural community. You try to make that kind of an investment in a rural community, we're going to write you up. We're going to shut you down."

How can you tell me that we have money available when you have that kind of a situation that exists?

Mr. **Grove**. I don't think that the Federal Government or our local banks want to make risky loans, but if——

Mr. **English**. Isn't it inherently risky whenever you talk about a rural community that is losing its population, that has been struck by low farm prices for years, that you have the businesses—the business activity of the community is deteriorating and with that kind of situation—that is the reason we are turned around. Now, if everything was going the other way, if rural communities were growing, if rural economies were prospering, if everything was on the upswing, we wouldn't need to be talking about rural development, would we?

Mr. **Grove**. No.

Mr. **English**. So the question is, How do we deal with the money from rural development? You are telling me you don't want to make risky loans, but by the very nature and by its very need, we have to have a little risk in this thing.

How do we do this?

Mr. **Grove**. What we are suggesting is that there is a surplus of capital at the local level, first. Second of all——

Mr. **English**. But you can't loan it, can you?

Mr. **Grove**. There is no—that is right.

Mr. **English**. Now, tell me, then, how do we get at that capital?

Mr. **Grove**. Then I think we get into either loan guarantees or rate buydowns, something that gives the incentive for the people who have moved out of the communities or want to move back to the communities to relocate and a credit enhancement feature, like a loan guarantee or interest rate buydown, would do that.

Mr. **English**. Who pays the bill for this is what I am getting at? Who pays for this?

Mr. **Grove**. I guess it would be part of the Federal Government.

Mr. **English**. Is less than $300 million going to cover all that?

Mr. **Grove**. It would be a big help.

Mr. **English**. How big a help? We have already said that is not even seed money. How much rural development is that going to get us?

Mr. **Grove**. It depends on how you leverage it. We think that the access is there. It is a matter of just structuring it so that you can get the most leverage from it.

The availability of the money isn't the problem, it is how you structure your $300 million to compound that pool of funds.

Mr. **English**. I am going to let Mr. Coleman—Mr. Grove, I want a good deal more specifics from you and the American Bankers Association as to how this is done. I don't want just generalities. You are dancing around on me, I am afraid. So I want some specifics. I want you to tie down and tell me specifically how should this thing be done.

You people are the experts; you are the money folks. You know the budget realities. You know the realities of small banking systems, so I expect you to come up with some ideas and tell us how to do this.

You are from a rural community. You know about this.

Mr. Coleman.

Mr. COLEMAN. Mr. Grove, one of the concerns the chairman expressed is that if you make these loans and they are, in fact, risky by definition in some cases, you would not in the normal course of business make them. But, if there was a guarantee by the Federal Government, let's say a 90-percent guarantee, then you would make these loans much more expeditiously than if there was no guarantee. Correct?

Mr. GROVE. That is right.

Mr. COLEMAN. A guaranteed loan is looked at by the Federal examiners differently from one which has no Federal guarantee, isn't that correct?

Mr. GROVE. That is correct.

Mr. COLEMAN. Tell us the difference.

Mr. GROVE. If it is a $100,000 loan and—the SBA presently guarantees up to 80 percent—if it is a problem like my cement plant and it had a Federal guarantee, the portion that is guaranteed, the 80 percent, would not be classified.

Mr. COLEMAN. Just the 20 percent.

Mr. GROVE. Just the 20 percent. So it means that we can have more volume on there if we—that is——

Mr. COLEMAN. And that is one of the real strong points of having a guaranteed loan program involved with rural development, is that, from the examiner's standpoint and the bank's standpoint, you can make a 9-to-1 loan that won't really hurt your ratings with the FDIC or anybody else.

Mr. GROVE. That is exactly right.

Mr. COLEMAN. I would just remind my colleagues that the reason this year when I redesigned my package of rural development legislation, I went to a guaranteed loan program because I believe, like you do, that it can be better utilized. And, it is not part of the $300 million budget resolution that we might have. It is off-budget.

From our standpoint that is important. From yours it makes no difference, but we could lend many dollars through a guarantee program and theoretically not impact the budget or touch the $300 million that we are all trying to make sure we use.

So those are two good reasons why a guaranteed loan program is a much better approach than even a direct grant program. The chairman is right, $300 million is not going to be spread that far, to make that much of a significant difference, but a 90-percent guaranteed loan program working through private lending institutions and a secondary market in the future could be a worthwhile delivery system. I would join with the chairman in asking your association to come forward with some of the key specifics that we would need to assure that this delivery system is out there and in place.

We know that rural banks are in jeopardy in many cases. It is difficult because of the economy, but with these guaranteed loan programs, they would be a significant factor. From that standpoint, I think we can work together on this thing and recognizing the budget consequences, but also recognizing that there are creative ways of getting around the budget here.

Mr. GROVE. Let me just expand on that, Mr. Coleman, because I think that is a very important point. The cement plant that I just used in my example has been classified ever since the loan has been made and that is 4 years ago. This one happens to be a 60-percent guaranteed loan. It has never missed a payment. It has been classified and it is 3-to-1, well secured. It is classified by the Treasury Department as a substandard asset because of its financial condition.

We know it is a very important business to our community. We know the people. We are very comfortable with the collateral. We would make that loan. We believe in the people and the business, but it is going to be a classified asset for some period of time.

However, that 60 percent has not been classified and, in fact, is sold on the secondary market. There is a good secondary market now for guaranteed SBA loans and business loans that—and I don't mean to discourage the fact that business loans could be put into Farmer Mac; I am just suggesting that in time, let's do first things first. At the present time, the guaranteed—there is an excellent guaranteed secondary market already for SBA and FmHA business and industry loans. I don't think that would be an impediment to more guarantees.

Mr. COLEMAN. You package these SBA loans then and sell them into a secondary market?

Mr. GROVE. Sell the guaranteed portion to the secondary market.

Mr. COLEMAN. The guaranteed portion?

Mr. GROVE. Yes.

Mr. COLEMAN. The rest you still hold.

Mr. GROVE. We retain the 10—to whatever percent is not guaranteed and we service the loan. We will remit the payments on to the servicer.

Mr. COLEMAN. That is for the SBA program?

Mr. GROVE. SBA and Business—B and I Program.

Mr. COLEMAN. B and I loans, now, you can do that, too?

Mr. GROVE. You can do the same thing.

Mr. COLEMAN. But Farmers Home Administration loans you do not do? Can you do?

Mr. GROVE. B and I Program is in the Farmers Home——

Mr. COLEMAN. That is true, but operating and land acquisition, you——

Mr. GROVE. For the agricultural side?

Mr. COLEMAN. Yes.

Mr. GROVE. Yes. It works the same way.

Mr. COLEMAN. You do that as well?

Mr. GROVE. That is right.

Mr. COLEMAN. Secondary market?

Mr. GROVE. Yes, and we have been selling those in the secondary market.

Mr. COLEMAN. Thank you.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

How do you feel about interest subsidies?

Mr. **Grove**. I think we have that in the—the reality is we are doing it now through direct loans with real estate loans for housing, for Farmers Home Administration. Those loans are made directly by the Farmers Home Administration and they are at 1 percent. I think we have them under the Disaster Program, both for the Farmers Home and SBA. Those are—we have a borrower in our community who is working on one right now that is 4 percent.

If that is going to be done and that is a national priority and a concern that Congress has, we think that the solution is not more lenders and—we could make those loans. We have the capital if the rate were about down to the same situation, the same cost to the borrower.

I think that is a strong consideration. As I view what needs to be done in rural America, there are businesses now that are successful in larger communities. The social phenomena that we are seeing out there is that, indeed, many people would like to leave those bigger communities. It doesn't take long to read your local newspaper here to see that because of crime and other things, it might be—there are people here who might want to relocate to a smaller community.

I think the thing that we need to be looking at, and interest subsidy is one way of doing that, is making the loan more attractive there than here. Given them some incentives to move from that larger community to the small towns.

We certainly, in the past, through other social programs that we have had, have given people incentives to leave small communities and come to large towns.

Mr. **Penny**. What ideas do you have about attracting venture capital, and I want to distinguish this from a lot of the guaranteed loan programs that we have been discussing so far because I think—I guess what I am getting at in asking about venture capital is, a new business start and maybe in an area that is not well established, a new product of some sort, a new processing technique, and that is the kind of stuff that is generally tougher to get financing for, particularly in rural areas.

Are there any proposals you might have that would make it easier to put that kind of capital together?

Mr. **Grove**. I think two things are important there. One is the knowledge of the market, how to access those markets. In a small community, it is very difficult to have the talent and the expertise to know, in fact, where to go to find venture capital and how best would serve those deals.

The concept that we are talking about with the Extension Service maybe being a conduit to bring some talent and expertise to the local businessmen, for him to go—banks, we cannot do the venture capital. We do participate in SBIC's, so I think, first, would be the delivery system for information to the businessman. Where does he go; what does he find?

Second of all, the SBIC concept is an excellent concept. It works and it works well. But in a small community, again, in our little town, there are only 1,500 people in our town and 2,500 in the county. Perhaps that SBIC concept could be expanded to be a joint venture of several counties, much like what we heard is going on in Oklahoma and Alabama.

That, as well as perhaps even again some enhancements to make it more attractive to put venture capital into communities of less than 5,000. Presently, SBIC's are the same rules for everybody. The facts are—is what I am saying—the knowledge level and the lack of information at the local level does not make the rules the same because our people do not know how to get it, one, and two, perhaps what we could do is take the existing SBIC Program and make incentives to make more—say, tax incentives or partnership programs that would be applicable more—on better terms in local level than they would be in, say, communities of over some size, 5,000 or whatever.

Mr. PENNY. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Penny.

Mr. Grove, we appreciate your testimony. Would you, as I said, you and the American Bankers Association, try to see what you can come up with in the way of specific recommendations in this area and perhaps submit that to the subcommittee in writing?

[The information follows:]

Community Facility Loans Federal Agricultural Mortgage Corporation Eligibility

(12 U.S.C. 2279 aa) (P.L.100-233)

Title VII Sec. 701 Statement of Purpose.

Amend Section 701 by adding a subsection (5) which states:

" (5) to provide greater liquidity and lending capacity in extending long-term credit to rural community facilities.

Title VIII Sec. 8.0 Definitions.

Amend Sec. 8.0 subsection (9) by inserting a new subsection 9(D) which states:

"(D) Notwithstanding subsection 9(A)(B)(C) for purposes of this subsection, is an obligation of a community facility as defined under Sec. 306 (a)(I) of the consolidated Farm and Rural Development Act [7 U.S.C. 1926 (a)(1)].

Title VIII Sec. 8.0 Definitions.

Amend Sec.8.0 to add subsection 11 which states:

(11) Community Facility. The term "community facility" means any entity that has received or is eligible to receive a loan made or insured by the Secretary of Agriculture under Section 306 (a)(1) of the Consolidated Farm and Rural Development Act [7 U.S.C. 1926 (a)(1)].

Title VIII Sec. 8.1 Federal Agricultural Mortgage Corporation

Amend Sec. 8.1 is by adding under Subsection (b)(4)

(b) Duties.

(4) provide guarantees for timely repayment of principal and interest on securities representing interests in, or obligations of the community facility.

Amendment Explanation

This amendment allows the Federal Agricultural Mortgage Corporation to extend their guarantee under Title VIII of the Farm Credit Act of 1971 (12 U.S.C. 2001 et. seq.) to qualified lenders for loans to a qualified community.

Mr. **Grove**. We would be very happy to and we appreciate the opportunity.

Mr. **English**. I appreciate that, Mr. Grove. Thank you.

Mr. **Grove**. Thank you.

Mr. **English**. Our next witnesses will come forward as a panel. We have Mr. Bruce Abbe, who is vice president of the legislative affairs, Communicating for Agriculture, of Minneapolis, MN; Ms. Laurel Sorlie, who is chairman of the CA Rural Development Committee, in Minneapolis.

If you both will come forward.

Mr. **Abbe**. Mr. Chairman, Laurel Sorlie could not be here with us today.

Mr. **English**. Mr. Abbe, so we will receive your testimony, and please feel free to summarize that testimony and the rest of it will be made a part of the record.

STATEMENT OF BRUCE ABBE, VICE PRESIDENT, LEGISLATIVE AFFAIRS, COMMUNICATING FOR AGRICULTURE

Mr. **Abbe**. Chairman English, members of the committee, I appreciate the opportunity to share with you the views of Communicating for Agriculture on rural development, the priorities and the choices that we believe need to be addressed.

Communicating for Agriculture is a national nonprofit organization made up of farmers, ranchers, and small business people in more than 40 States. We represent our members on a host of issues, including ag finance, agricultural research and diversification, rural education, rural health care, and economic development.

To fulfill our roles as communicators, we regularly survey our members, as well as broader cross sections of the rural population on current issues. To prepare for these congressional hearings, we recently held our own focus-group type meetings with people working in rural development in small communities in Iowa, Minnesota, and eastern North Dakota.

In addition, CA conducted a survey in July 1988 of some 300 community development officials from throughout the country.

If there was one key message that we have consistently heard, it is that local involvement in leadership is the key to nearly all successful rural development efforts. We should see that State and Federal programs are user-friendly; that they enhance, not hinder local leadership. Flexibility is critical to any new programs so that they will work to respond to local initiatives.

The limits on available Federal dollars to support new rural development is clear. We support efforts to encourage more private lending through the use of loan guarantees rather than grants, and formation of local revolving loan funds.

Requiring matching funding from local investors can be an advantage because it not only leverages more investment dollars, it also stimulates local action to form such lending programs and involves local lenders who often are in the best position to evaluate the merits of an initiative.

But the message, again, that we have heard is that local officials should have the key decisionmaking authority for these loans. Simple clear guidelines should be set by the Federal Government and Federal review, if at all practicable, should take place after the loans are made.

We, too, support the concept that has been talked about earlier of a sliding-scale mechanism because there are certain hard-pressed areas where the matching funds will be difficult to come up with and there needs to be some sort of mechanisms to help them out.

One area that we strongly urge you to look into is the designs and standards that are mandated for many infrastructure projects, to see that they do not go beyond what is appropriate for the local needs. We have been led to believe there is considerable opportunity for cost-savings in this area.

When water treatment facilities cover an area that is as large as the town, something is wrong, one area Farmers Home official told us.

In addition, we suggest that you look at how private contractors are paid to try to reward those who provide lower cost, but quality construction, as opposed to the most elaborate designs.

We have a great deal of faith in the bottom-up approach to rural development. Supporting the local entrepreneur or existing businesses looking to expand yields the best payback for development investments because these people have the motivation needed to succeed and the personal tie that will keep them permanently in the community.

There are two areas that need attention to better support bottom-up development: start-up venture capital and technical assistance.

We encourage you to ensure that new local revolving funds that may receive Federal participation funding are given the authority and encouragement to make small venture capital loans, and we also believe there is much merit in the small business rural revitalization legislation that has been introduced in the Senate and we understand will soon be introduced in the House Small Business Committee.

Rural development people tell us that improving and expanding technical assistance to small developing businesses is extremely important, every bit as important as finding new financing mechanisms. Management training and marketing expertise, in particular, are needed.

Small business development centers, largely federally funded, are programs that work in this area, and in our judgment, they should receive continued Federal support with more resources focused on rural areas, which are some of the findings that Representative Coleman's GAO study had brought to light.

Our last message is, don't forget agriculture when addressing rural development. There is both a need and an opportunity for new farmers, new crops, and new utilization of agricultural products that could yield much long-term strength for rural community development. CA has a strong interest in one special program. It is private activity bonds for beginning farmers. This very small program has been used by many States to create beginning farmer programs to help finance land purchases.

At the end of this year, the program faces a sunset under the Tax Reform Act of 1986. If it is not extended, this would severely hamper our efforts to regenerate those State programs.

Last, our surveys show that there is much promise and a tremendous amount of interest right now in industrial uses of agricultural commodities, both traditional crops and entirely new crops. We would strongly urge you to pass legislation which has been introduced by Representatives Penny, Madigan, and Smith, which would encourage both commercialization and research on industrial uses of ag commodities.

At this time, I guess our one overall concern would be—as has been expressed here this morning by yourself and several others—is that the funding dollars are extremely, extremely small for the task that is at hand. The concern we have is with all these new ideas, we may end up trying to fund them all with too few funds and none of them will end up being adequately equipped to do the job.

So it is not an easy task that you face here, and I think we have to bear that in mind.

But we appreciate the opportunity to be here and if I can answer any questions about my comments or the prepared remarks, I would be happy to do so.

[The prepared statement of Mr. Abbe and Ms. Sorlie appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Abbe. I appreciate that.

I think the question with regard to the funding is going to be a key question as to how we make this money available to these rural communities and, at the same time, try to make sure that the loans that are guaranteed—that we have some way in which we can make certain that those projects have a chance.

Have you got any suggestions for us as to what might be the best way to approach that?

Mr. ABBE. I suspect there may need to be somewhat of a tiered approach. I certainly don't have the expertise in financing that the previous witness has, but it seems to me when you have a program that involves stronger matching funds from local investments and local communities, maybe those are the kinds of programs where we can rely a little more on that local expertise to review those loans and the Federal Government can concern itself primarily with looking at the overall performance of the program on a periodic basis to make sure that it is not being misused.

I think the more you get into large loans, and those with less security, then that is an area where maybe there has to be more Federal involvement at the application stage of it. I guess that is the best guidance I can give you at this point.

Mr. ENGLISH. I guess the question that we have to try to determine here is, from the standpoint of local involvement, local support, local assistance. Some people would point to the matching funds as being the ideal way of doing that, but that discriminates against those communities that are having economically difficult times. It prevents them from participating in the program.

Do you have any thoughts with regard to how we address that kind of a problem?

Mr. Abbe. I think, again, we are going to have to have sort of a—some sort of a mix. It involves the difficult decision of choosing between supporting the winners that come forth out there or those that need the most help. With limited funds, are we then taking away from those that have the greatest need out there or limiting those with the best chance of success?

I think, at a certain level in basic infrastructure, we need to help people down there. I think there are hard-pressed areas and, as I mentioned, I think the sliding-scale mechanism for some of these cases holds a fair amount of merit. But at the same time, when you look at USDA's forecast, there is $20 to $40 billion that are needed to fund—just to bring all the rural water and sewer treatment facilities up to national standards. We know we are dealing with a huge amount of money and we need to try to bring in as much private lending from outside sources as possible.

So I think that in those cases, we need more local participation out there and I think that is where it is going to have to come from. I think you are going to have to have a mix. If we go strongly in the other direction, funding only those that are hardest hit, and we certainly need to help them, we would be the first ones to stand up here and say we would like to see a lot more money in rural development. We think you are going to get a lot better pay back for that investment than for much of the funding that is going into defense and a lot of other areas. We think that the jobs that are created in rural areas would pay back the country much more. But we have to live within our bounds right now. And where there are communities out there, where there are initiatives and good ideas under way, it seems like it would be smart for us to try to give them a bit of a boost to help them take on the job themselves. We think that is the best way to get the most bang for our buck.

Mr. English. In your opinion, is there merit in approaching this from a comprehensive standpoint; in other words, looking at the total community, as we have done in the past? It has been piecemeal here and there, hit and miss.

Should we look at this not so much as to what a particular community may need or what its chances are for providing matching funds, but instead, looking at it as to whether or not, given the proper assistance, a community has a reasonably chance of growing in the future, as opposed to communities that don't?

Mr. Abbe. Yes, I would think so.

Mr. English. So there has to be this kind of Solomon-like decision made someplace that this group is going to get help; this group is not going to get help.

Mr. Abbe. Well, let me correct that. I don't want to get off base here.

Basically, from what we have heard from people, is that what succeeds in rural communities grows from local involvement. It is very difficult to go into a particular area and say, this is what we think you need. Time and again, people tell us that really doesn't work very well.

If there is local involvement there, those people have the motivation to move ahead. So for us to sit and pick and choose who the winners are, from the Federal Government or the State government's level, we don't think that can work at all. We think that is a very difficult approach.

Certainly we need to look at those areas that are losing their population base, and those that have a very unqualified water and infrastructure systems. There are a lot of basic fundamental areas where we need to try to help those communities. But beyond that, we think the key thing is to support that local initiative that has got underway through local action. Otherwise, it is just too hard to pick the ones that are going to emerge and nobody is really able to do that.

Mr. **English**. Mr. Coleman.

Mr. **Coleman**. Mr. Abbe, I want to commend you and your organization, Communicating for Agriculture, for what I find to be outstanding testimony today. I think you have hit the high points of what we ought to be doing in rural development.

Mr. **Abbe**. I appreciate it. Thank you, sir.

Mr. **Coleman**. Local involvement is the key. We can pass all these programs, but they are not going to be workable unless we have local leadership. We all have communities in our districts that are viable and prosperous 30 minutes away from those that are in decay. The difference is local leadership.

Infrastructure and telecommunications. You hit the right button there. We need to tie in technology, telecommunications to rural areas more and my bill ought to help make that incentive happen.

Diversification. That is the key. We need to diversify. All of this is going toward diversifying rural economies. That is one of your key points.

New crops. New utilization for present crops. Indeed, we are very happy to be on bills with our colleagues to try to find industrial uses for new crops. Again, this is part of the diversification effort, I believe.

I appreciate your comments about reorganizing USDA. I see from your survey that they agree with me by over a 2-to-1 margin that we can deliver these existing services better and the ones that we propose could be delivered better through an umbrella organization within USDA. That, to me, is a key section of what we need to do here, is to make the delivery system better.

So, for all these reasons, I commend you and I think your suggestions fit in very consistently with my view of what we ought to be doing with rural development. I am glad to see that your organization is out there articulating the same type of approaches, and I look forward to having you spread the gospel as a communicator in agriculture to get this job done.

I thank you for it.

Mr. **Abbe**. Thank you.

Mr. **English**. Mr. Penny.

Mr. **Penny**. I, too, want to thank Mr. Abbe for his excellent testimony and for covering all the bases. I agree with him that there has to be local initiative, local involvement for any of these programs to work and I hope that as we proceed to address the issue of rural development, that we will assure that local involvement, local financial commitment, local control over these programs to the largest degree possible is a part of our package.

I have two questions I would like you to answer. There is a lot that needs to be done, technical assistance, improved funding for rural schools, rural infrastructure, waste treatment, water, highways, bridges, rural development generally, loans, grants, whatever they may be. If you were told there was only one program that we were going to fund with the money we had available, what kind of program for rural development do you think would give us the best return?

Mr. ABBE. If we scratched out what layer of government was to do it——

Mr. PENNY. I don't care, really. I just want to know what you think would be the most beneficial service or stimulus for rural development that we could provide right now.

Mr. ABBE. I think it is technical assistance. I think there are a variety of loan programs out there right now and funding mechanisms that, if the idea is pretty good or we could make the idea better then I think we can find funding for some of these people and programs. But in many rural areas right now there is kind of a barrier out there, it seems, between working with the urban areas and getting involved with the rest of the world where business is up and running full steam. I think we have to break that barrier down.

I think the message goes both ways. Rural people have to reach out to the urban areas and find the expertise and learn how to use it like offer businesses do. So it is technical expertise and marketing, in particular, and it is bringing in innovation to the rural area, and it is in rural education, in helping rural people to learn the strengths of their own community and what can be done there.

So, if you had one, it would be technical assistance. I think, really, a lot of that action has to happen right in the rural community itself. But I do think that, to make it succeed, we have to provide a bunch of tools for rural communities and I think that the Federal Government is a very key area where that has to happen.

Mr. PENNY. It is interesting that you would single that out because the second question that I wanted to ask you dealt with technical assistance. Who should provide it? The Extension Service? the REA's, our Regional Economic Development Councils or the regional governments? We have a lot of people that have the potential to provide it. Some of them are attempting to do it right now.

Would you single out any area or——

Mr. ABBE. I don't think you—it is tough to single one out because, again, I think that this may vary somewhat from one area to the other. I think you will find some regional government areas—in fact, in many cases, that may be the best one because they know more of the resources that exist in a broader local area.

But, in some areas, I don't know that they are as effective as they are in others. I don't want—to upstage the remarks of one of my colleagues from the Extension here. I think they could do it. I think they could do it pretty well, but from my knowledge and from what we hear, they are strapped right now, people in the Extension Service, for all the work that they are doing right now. And there has been a tendency for the Extension Service in the past to kind of gravitate toward research and leadership building out there. They are good things, but there is a lot of just hands-on business technical expertise that the Extension doesn't have now that is definitely in rural areas.

I think they can get it, but I think it probably would have to be somewhat of a new program. They really would have to reach out into the development world, the business world, and find out how to tap those resources. So it could be done. But it would take quite a bit of new work there.

Again, in some ways, this may be more of a block grant-type situation provided to the States—where they are in a little better position to judge what could happen and what is needed locally. That may be the best way to go if the Federal Government were to put some money into technical assistance. Even if you could do some pilot programs of some kind, where you set up a demonstration program on a more local level. We have learned of some real effective ones that are working and having success helping entrepreneurs—actually from elsewhere in the world where they are facing similar problems. In those cases, I think the local area ends up funding a lot of the programs. But a pilot program that could demonstrate the success of technical assistance to help entreprenuers would be beneficial.

Mr. PENNY. I, again, appreciate your testimony. It has been very helpful and I look forward to working with you as we try to put the finishing touches on this legislation. I know your organization has been very helpful to policymakers in the past and my office has leaned on you pretty heavily from time to time and we hope we can have a collaborative effort with you again as we put together this bill.

Mr. ABBE. Be glad to, glad to.

Mr. ENGLISH. Thank you very much, Mr. Abbe. I appreciate your testimony. You have done an outstanding job and we are very happy to have it. It is going to be very beneficial to us.

Mr. ABBE. Thank you very much, sir.

Mr. ENGLISH. Thank you.

Our next witness is the Honorable Gilmer Capps, who is chairman of the policy steering committee of the Center for Agriculture and Rural Development, the Council of State Governments, in Lexington, KY.

Senator Capps, we want to welcome you here today and appreciate your testimony.

STATEMENT OF GILMER CAPPS, CHAIRMAN, POLICY STEERING COMMITTEE, CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT, THE COUNCIL OF STATE GOVERNMENTS

Mr. CAPPS. Thank you, Congressman. You know this very well, but I am not ashamed of Kentucky, but as most of you know, I am from Oklahoma.

Mr. ENGLISH. That is right.

Mr. CAPPS. I just happen to chair the committee that is stationed out of Kentucky, but as you know, Congressman, you live in my senatorial district and I live in your congressional district. I appreciate being included today.

Mr. ENGLISH. Let me say, Gilmer, if you would care to summarize your testimony, your complete written testimony will be made a part of the record.

Mr. CAPPS. I will summarize it because it is about eight pages long.

I have enjoyed listening to the previous testimony. I feel a little bit like the person in the parade about three-quarters back behind the horses. I think it looks like most of the ground has been covered. [Laughter.]

Congressman English and members of the subcommittee, I want to thank you for inviting me here today to share our ideals about ways to make the 1990 farm bill or other legislation more responsive to the needs of rural America.

Since the turn of the century, and we all know this, but we have seen a movement of people from the farms to the city, but never in such numbers with such consequences as during the 1980's. While 25 percent of all Americans were farmers in 1900, less than 3 percent farm today.

Mr. Chairman, I believe you tell us that 1 million people left rural America in 1986 and 1987. This is a situation that most State legislatures find unacceptable, as do the Governors, the commissioners of agriculture, lieutenant governors, and other State leaders that make up the Council of State Governments.

In 1985, after the farm bill was passed, we formed the Center for Agriculture and Rural Development as an organization dedicated to finding ways to stem this tide and to identify new income opportunities for people who want to live and work in rural America.

I am chairman of this policy steering committee and a number of you Congressmen represent members of my steering committee. We have 13 States that are represented on that steering committee and members that belong from all over the United States.

The first chairman was the Lieutenant Governor from Iowa, and I believe your Congressman is from Iowa on your committee. But I am also a third-generation farmer. I raise Angus cattle, wheat, and cotton. My granddad came from Illinois in 1902 and my dad farmed with him, so I have some practical experience in farming.

My wife and I bought the farm almost 30 years ago and we have been through it all. I can tell you about alternative crops from personal experience. Along with raising wheat and cotton, I have raised onions, cucumbers, squash, among other things. We don't have any trouble growing them, but we sure have trouble breaking into the markets.

Improving access to markets for both agricultural and other products from rural America has been one of our major areas of emphasis at the center. We believe State-led efforts are making a difference.

Agricultural diversification, value-added, and marketing have gained new respect within State departments of agriculture and in the legislative budgetary process as a result of our efforts over the past several years. However, we need the Federal Government to continue its pursuit of fair trade throughout the world so that our farmers can compete on a level playing field in the international marketplace.

We also strongly encourage increased funding for research into new crops, value-added products, and consumer behavior, to help our farmers increase their productivity into the future.

We have a three-part agenda for rural economic development and when we had our first conference in Lexington, back 2 years ago, we called it Jobs, Education, and Technology, JET for short. What we are targeting is more research to rural areas than ever before and we need Federal agency support and assistance if we are going to keep rural America alive and healthy.

Each regional rural area has unique characteristics, but that doesn't mean we need to create a new program or agency for each problem. What we need to do is use our existing programs to create new markets for farmers and other rural businesses, add values to our rural products and help our small community develop plans for a viable future.

Federal laws and regulations must give States flexibility to respond with our different regional needs. For example, some of the States that are participants of our committee are recovering from the economic downfall, but some States—the oil and gas States, such as my State—have not recovered. So the plan does need to be flexible.

We are suggesting that agriculture should not blunt the full expense of rural development. We feel that every agency is involved. We are making suggestions that maybe you have some pilot program. This percentage may not be correct, but we make a suggestion that let a certain percent of every agency share in rural development because when we lose people out of our rural area, and they are going to a larger community, it creates problems on our school districts and everything else.

We suggest six types of Federal programs should be included, most of them are in place; rural public services, natural resources policy, income and employment, education and retraining, poverty and health centers. Again, my mayor from Elk City suggested the health system. That is most important to rural America and I think it is going to be more important in the future.

We are making suggestions in our agency. Our council, our Center for Agriculture and Rural Development is willing to assist you on this. We are made up of all the States in the Union, but I think we need some pilot programs.

In some of our conferences, we have had States give us some outstanding programs. I think we need an educational program across the United States on programs that are available. In our meetings, we have had SBA and others give us presentations and I have learned about programs that I didn't know about.

Mr. Penny, I believe, asked, Who should be responsible for that? I would encourage you to allow the extension department to become involved. I had a request, Mr. Chairman, from our district last week saying why not a person in the Extension office to help a person learn about these grants and assist them in filling out the application? Our sub-State planning district is doing an outstanding job and I am not wanting to take away from them, but I think the extension office could be more deeply involved.

I think we need a good education approach across the United States on rural development. I see this happening in our individual

States that we are working with and my committee is willing to assist you all any way that we can.

[The prepared statement of Mr. Capps appears at the conclusion of the hearing.]

Mr. **English**. Gilmer, thank you very much. That is excellent testimony.

One of the things, it would seem to me, is that, as has been pointed out time and time again, we have very limited resources certainly as far as any new moneys. We have had programs that have been kind of far flung. As you mentioned, there are a lot of programs available that probably most rural communities don't have any idea about, don't know anything about.

Mr. **Capps**. That is right.

Mr. **English**. I think that there is some merit in making available assistance to rural communities in finding out about those programs, assisting them in applying for those programs and support. I think that is a good point as well.

One of the other things that we really come down to is that we have probably more communities out there than we are likely to see any help available for in the foreseeable future.

The question, then, comes down to, How do we have the biggest impact with the resources that we have? Should we get a comprehensive program in which you treat a community as a viable economic entity—this community we think has a chance to make it if it receives this kind of assistance or they may have a small industry that is willing to come into their town if certain needs are met, whether it be modern communication systems, water/sewer systems, housing, whatever it may be.

In your opinion, is there merit in that type of comprehensive approach, as opposed to kind of the hit-and-miss piecemeal thing that we have now, that we really don't take into account whether that community, in some cases, may not even be there 10 or 20 years from now?

Mr. **Capps**. I understand what you are saying and I think I would like to answer it in this respect, and if you don't mind, let me quote Oklahoma because I am more familiar with them.

I see where private enterprise is becoming more concerned with rural development. In our district, in Oklahoma, we have the REC's that are becoming very involved and beginning to put money into, I think, what will be some matching moneys.

On the State level, the key word in the last few years has been economic development, but we are beginning to turn that around and now say rural development.

To answer your question, and I heard the mayor from Elk City mention it, which is very true, many communities cannot match the money on a dollar-by-dollar. I have no problem on the State level of us putting some State money into going in with the Federal moneys. Now, how are you going to screen out which ones are eligible, what community? That is going to be most difficult.

I guess this falls back on some of my previous training by being in the banking business, I believe some of the businesses that come in are going to have to put some of the money up, too, because to make it a good loan, they need to have some type of an investment included. Many times, if they don't put something in it, they don't really care too much about whether they stay or not. So I really have no problem with an industry putting some of their money in to be part of the match, if that answered some of the questions you were concerned with.

Mr. ENGLISH. I think it is a good point. I guess the question arises, we have seen desperate communities, a lot of desperate communities that are fighting tooth and toenail to try to secure some kind of industry. We have just seen one of the largest communities in our State in competition with a major city in another State, where the entire State establishment got involved in conveying all kinds of benefits. You don't have to pay taxes; you don't have to do anything. We will pay you to come to our town.

Mr. CAPPS. Yes, sir.

Mr. ENGLISH. So I am not so sure, with a State or an area of the country that is having severe financial difficulty, does that not get us back in the same thing if, in fact, we say, OK, the business that comes in is going to have to come up with something because our community simply does not have the resources to provide the matching funds?

Isn't that, then, going to provide the advantage to the communities that are doing pretty well by simply saying, hey, you don't have to put up anything in our State. We will do it for you. We will take care of all that?

Mr. CAPPS. I think that is true. I think we need to look very, very carefully at why did they go to other States, what did they have to offer and we are still having trouble trying to figure that out actually.

Mr. ENGLISH. Isn't there also something of a problem, too, when we get into these bidding wars? It is really a situation in which communities, the more desperate they are, the more likely that they simply will derive less and less economic benefit from that particular industry?

Mr. CAPPS. Yes.

Mr. ENGLISH. Do you have any thoughts as to how we deal with that kind of a problem?

Mr. CAPPS. No, I have used your hometown as a good example and, as you know, we are getting what I call a real nice industry into Cordell, OK, and the way that that was obtained, there was a person who had grown up in Cordell and moved to another State and made friends with an industry and said, "Why don't you look at my home State," and brought them back.

So I am saying that everybody is an ambassador of their hometown and their home State if they just tell the good word when they go out. I think we need to use that for an example.

Mr. ENGLISH. Do you think there is a chance the leadership in the communities will, in effect, make those decisions for us, that they are the ones that will decide who receives assistance and who doesn't? Some communities are very active; other communities don't take much of an interest.

Mr. CAPPS. I think that is very true. I see this in Oklahoma and I am in agriculture, but I think those of us who are in agriculture are beginning to turn around and say, "Yes, we want industry and probably in the past we have not supported it," and we see people moving off the farms and losing our schools and now I think we are making adjustments. We, too, are now saying, "We want industry to come to rural America."

Mr. **English**. Mr. Coleman.

Mr. **Coleman**. Mr. Capps, just for clarification, when you talk about rural demonstration projects and you talk about the Taskforce on Rural Development of the Economic Policy Council, is that the taskforce that we know the President——

Mr. **Capps**. I think that is your present one. It is under the USDA.

Mr. **Coleman**. Fine. Later on, you indicate that that taskforce, with the advice and assistance of different interest groups, develop and certify States as eligible to participate in the program.

I am not sure I would have the same players as you have indicated, but I think what you are suggesting is that we need to have some big-picture view and I would provide that by reorganizing USDA, in a sense, to provide for the overall coordination of rural development programs and rural issues by creating a rural development administration. It would be headed by an advocate for rural America and that person would be in USDA. That policymakers would take over the coordinated efforts so that left and right hands know what is going on.

I think it is similar to what you are suggesting, but I am not sure that your suggestion here is really workable. So take a look at our bill and see if that can't be developed in the same way you are hoping for. I agree that we need to have some overall viewpoints instead of just having a number of agencies and a number of departments here scattered all over, and we get the little effect. We get scatter gun approaches which really aren't making an impact.

If we can refine that a little bit better, I think we can both end up at the same place.

Thank you for your testimony.

Mr. **Capps**. Thank you.

Mr. **English**. Senator, we deeply appreciate it. You have done a fine job. Thanks an awful lot for coming today.

Our next witness is Dr. Ayse Somersan, who is the dean of the cooperative extension, University of Wisconsin, in Madison, WI.

Doctor, we are happy to have you here today.

STATEMENT OF AYSE SOMERSAN, DEAN, COOPERATIVE EXTENSION SERVICE, UNIVERSITY OF WISCONSIN, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES

Ms. **Somersan**. Thank you, Mr. Chairman, members of the committee. I am Ayse Somersan. I have worked with the Extension Service in Wisconsin for 16 years, most of those 16 years, I have worked as a specialist, working with communities, community leaders through our county offices, and our extension personnel at the local level, helping improve the literacy of our community leaders in terms of their economic development policy actions.

For the last several years, I have worked with the taskforces of the Extension Service, USDA, as a part of the strategic planning process for the Extension Service, which identified rural revitalization as one of the national initiatives where we define the issues, we set the educational goals.

I deeply appreciate the invitation and the opportunity to come here today to talk about important issues relating to rural revitalization. I am representing the National Association of State Universities and Land-Grant Colleges, especially the extension components of the organization. The association is extremely supportive of the rural revitalization initiative of our cooperative extension system.

The Extension Service is a part of the USDA team and the agency shows its commitment to the education components of the rural regeneration effort by citing it as the lead item in its rural regeneration agenda. I appreciate the leadership role that you are taking to think through a comprehensive bill to improve the condition of our rural economy.

I believe that restoring vitality to our rural areas will require action at all levels of government, as well as within the private sector.

For the last 7 years, we have had an economic expansion across the country, but the rays of sunshine got focused on the east and west coasts and on the financial centers of the South and the Midwest and the rising economic tide has not lifted the rural boats. Most of our rural communities are under some level of economic stress.

Over the last decade, we have had economic restructuring and it has hit rural areas particularly hard. The declining goods-producing industry employment is important as a contributor to half of that stress and in them, I not only cite the agricultural industries and the extractive industries, but low-skill standardized manufacturing decline has probably hit rural areas more severely than any other single change.

We have had extremely slow growth in our export-oriented service industries in rural areas, which has been the source of almost all new jobs in our metropolitan counties. The level and the composition of Federal Government spending has changed—and that has had impact—and the deregulation of banking, transportation, and communication systems have also affected rural areas differentially, just to name a few of the causes.

There is understanding today across the Nation that rural and agriculture are no longer synonymous and that as you fashion a comprehensive rural development bill, I would urge that you consider three components, that you consider an economic development policy component, a rural transition policy component, as well as farm policy as an integral part of that system.

My colleague at the University of Wisconsin, Glen Pulver, who has written extensively in this area, has identified, as have others, diversification as the single most important change we can bring about in rural areas and diversification implies assisting the growth of service industries and high-technology small manufacturing establishments.

There are basically five factors that contribute to vitality in rural communities. All of them have to do with access, access to education, access to capital, access to telecommunications, access to transportation, and access to a high-quality living environment.

Communities which provide this access will thrive and those that don't will continue to decline.

If I may, I would like to summarize some of my comments that are focused on just the education part of this five-point comprehensive agenda for rural regeneration and I would like to focus my remarks even further on extension education, on improving the economic development policy literacy of our local community leaders.

I think that the single most important initiative that could be undertaken to improve the well-being of rural America is the expansion of education and technical assistance in community economic development policy that is provided to local officials, to business people, and to local leaders. The growing importance of policy literacy at the State and national levels is obvious, but I think the need is most acute at the local level.

Strategies have to be specific to the community level. It has been said here very eloquently before me that economic development takes place at the local level. It is there that the leadership needs to be. It is there that the strategies are formulated. Whatever we can do to build that capacity will pay off over the long haul.

The choices are complicated today. They are more complicated than ever and specialized knowledge is required. In our rural areas, local government officials, community organizations, and private business people have less access to economic development policy education. One reason is because of the smaller population, we have a narrower industrial base. They have a narrower knowledge base among local people.

For example, our local bankers have lending experiences with fewer types of businesses and our elected officials bring less diverse knowledge to public decisionmaking. Our rural areas, by way of distance, are further away from specialized sources of knowledge. They cannot easily, within a short period of time, get the education and the information that they need. They have a smaller economic base from which to finance the acquisition of needed informational resources.

If you do consider making an investment to expand education and information delivery at the local level, I would like to offer some suggestions on what I would consider to be an effective approach. There are some requirements. I know you know them all. I feel obligated to repeat some of them.

No two communities are alike; therefore, the knowledge that is provided must at least in part be tailored to the specific concerns of each community. Second, the knowledge must come from a trusted source in which the community leaders have absolute confidence. A message will be rejected if it is in incomprehensible or impractical or if it comes with economic motivations that are suspect.

The information must be readily available delivered in or close to the community and it must be available when needed. Problems don't come on a semester basis and they don't come around during annual conference time.

Programs must be flexible. They must be informal education workshops, public meetings, small group discussion sessions, one-on-one consultation, brief publications. These are most likely to accomplish the desired goals. Educational assistance must be continuing because if there is one thing that I have become a believer in, and that is stamina is probably the shortest commodity out there as far as what the shortfall is at the local level.

You need knowledge, you need cooperation, but most of all, you need stamina because it takes a long time to do this.

Finally, I believe that a combination of financial support from the community level, State level, and the Federal level may guarantee that the interest of the widest public would get served as a part of a new initiative.

I would like to offer the organization that I am a part of, the Extension Service, as having the potential to meet the educational challenge in rural America. For over seven decades, this system has maintained a strong and longstanding commitment to rural America and its people.

The type of input that has gone into improving the agricultural profitability has certainly changed the nature of work in this country and has provided all Americans with significant economic personal and social benefits. Today, the same type of investment, both in terms of money and people, is needed for the same Extension Service to take its comparative advantage, which is meaningful education, and apply it more and in more specific ways to the needs of rural America.

I would like to suggest some specific types of initiatives which you might consider, but I would urge you to consider a meaningful level of new funding in order to build a strong rural development education program within the Extension Service and within the system.

The commitment needs to be one which accomplishes basically certain outputs at three different levels. At the national level, I would recommend funding to support a national institute for rural community economic development. This institute would assemble and disseminate the knowledge of action strategies that offer realistic chances for community economic revitalization to State and to local leaders.

Really useful knowledge exists, but it is scattered across the Nation in small bits among theorists and pragmatists, academics and practitioners, bureaucrats and private developers throughout the country. Combined and distributed this knowledge could be of great practical use in local planning and action.

I would urge expanded funding for the Rural Information Center of the USDA as an exchange mechanism that is ongoing, that is practical, that is low-cost and will bear fruit if expanded. I would encourage funding to the States to build or expand their capacity within university departments to provide the core-applied research and extension programming to support ongoing State-specific community economic development programs.

Finally, I would encourage funding to counties to ensure educator catalyst support to community and county leaders in rational economic development policy action.

The land-grant university system and cooperative extension services, with their heritage in helping rural people use knowledge to improve their lives, have the structure, the expertise, and technical capabilities to support a comprehensive rural development effort and educational component of this effort. Obviously, a comprehensive push requires more than education and technical assistance; it requires all the other elements I cited at the beginning of my testimony.

But I am focused on education because that is where I come from and that is what I know more than other parts of this package. I would be delighted to answer your questions and I offer any services that I may be able to render to your committee in working on rural development legislation.

[The prepared statement of Ms. Somersan appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Dr. Somersan. I appreciate that.

I guess the first question that comes to mind, I think you have a good point with regard to using the extension services. It is in place. I think you are right, it is trusted, impartial, and recognized as such. It gives us the potential of disseminating information across the country and it is already in place.

The question is, given the responsibilities of the Extension Service at the present time, to take on this kind of a job, How much more in the way of resources do you anticipate would be necessary for that function?

Ms. SOMERSAN. Mr. Chairman, as I was trying to indicate, I think it would be a mistake to assign this responsibility, an expanded responsibility, to the Extension Service without the attendant resources. What I was calling a meaningful level of resources probably starts at $10 million.

As I figure it, that would provide a combination of three plus specialists or some part-time individuals if you were to distribute this evenly across the States, plus it would—and territories—plus, it would leave some funding where the service could undertake some of the national types of capacity, quick capacity building exercises, such as an institute that I was referring to and some regional applied research and demonstration kind of projects. I think a $20-million level is more realistic.

Another point that I would like to offer for your consideration is that it is not an 18-month job. If such an allocation were to be feasible, at least a 5-year time period be allowed for the system to gear up and for the system to come back to this Congress with some accomplishment data and I think that would be essential, for us to come back and show you that education does, in fact, make a difference for that kind of a public investment.

But that would not be the only funds that would come in. If I may, that would leverage probably $3 to $4 more of non-Federal moneys, because I look at our Wisconsin Extension Service, the Federal commitment is only 25 percent of the budget that I administer as dean. I have 40 percent State funds and 35 percent county funds, so that $1 of Federal money in this case brings in another $3 toward the same effort, and in that sense, it is probably one of the better deals.

Mr. ENGLISH. The institute that you mention for training and also you mentioned a clearinghouse to carry out those kinds of functions. How much do you anticipate the cost would be for such an effort?

Ms. SOMERSAN. I think you can get an institute started. We were doing some figuring for under $1½ million and that would basically put together a faculty, the teaching part of the national entity, that would come from many States. Oklahoma has specialists, some of the first-rate local government education specialists are in Oklahoma. Missouri has specialists. Minnesota, Wisconsin, who have select parts of this knowledge.

So, in a sense, I envision putting together a faculty that comes from across the Nation that offers—I mean, you could modify this to regional levels, depending on how much more money you put into it, but I would envision that coming at a very productive level for around $1½ million.

I think there have been requests to your committee and to others to add about half a million dollars to move the Rural Information Clearinghouse, which exists now with the USDA. It got started, I believe, 2 years ago, with some internal reallocation within the agency, so there is some track record. We know people are calling and the beauty of it is that is doesn't even take a long-distance call to access information from Washington. You go to the county office, you have a broker there, in a sense, who then accesses this clearinghouse and give you information back as an individual interested in who is doing what in whichever particular area.

So these are not large sums, but they do help grease the skids.

Mr. **English**. Thank you.

Mr. Coleman.

Mr. **Coleman**. Your testimony is very comprehensive, and I think very good. I have been very impressed in our area with what the Extension Service has been doing on an ad hoc basis. When I started getting involved 3 or 4 years ago, the Extension Service was putting together with shoestrings and bubblegum opportunities you are suggesting we fund. By taking a few bucks from this one and that one and doing it on their own, they were trying to respond to a need that nobody was responding to.

Reading your testimony is a little like deju vu because one of the things I have been preaching here is that we have to take the blinders off and that agriculture, while being important, is not going to be necessarily the salvation of rural communities in the future. We are going to have to improve the economic well-being, as you say, more than just farm programs. I think we are beginning to recognize that.

This is not to say or to minimize farm programs or to detract from them, but to buttress them and to add to them so that communities can survive and our farm population can survive as well. Once we understand that, then I don't think we are going to be in a conflict mode or competitive mode. I think that is very important.

I sense you want to respond or say something.

Ms. **Somersan**. I couldn't agree more. That realization, though, has started to sink in, I think at all levels. I find that extremely encouraging.

Mr. **Coleman**. I am glad because I was somewhat of a voice in the wilderness up here and I think some commodity groups felt that there was—we had so much of a pie we had to divide up and they were going to get their share first and anything left over could go to whatever. But now that we have a little bit of budget money and more understanding of the problem, I think everybody will gain through this proposal.

You suggest developing and using new marketing alternatives and techniques in international markets. I suggest we also use those same efforts on developing and marketing and new techniques in applied research and technology to rural problems themselves through the land grant institutions or other not-for-profit organizations through a grant program that I am proposing in my legislation.

You mentioned access to education. We have an education program. We call it ACCESS. It is a 2-year program funded by a grant from the Department of Education in which we have gone back to rural schools in my district to set up, through the guidance counselors in the schools, efforts to assure that our rural youngsters are made aware of all the opportunities for higher education: how they can get on that track, how they can take the SAT, how they can improve themselves, how they can access information through computer programs to be able to learn about scholarships and Federal loan programs and student aid. All these things that are pretty much taken for granted and common in urban schools are not necessarily available in rural schools.

That is a pilot project which hopefully will be developed on a nationwide basis once its pilot aspect has been studied and reports have been filed.

So I couldn't agree with you more on many of the things that you have said here. There are things that, in some cases, are going on on a local level and agree with the chairman about the institute and what we might be able to do. I think this is an interesting approach to try to train leadership. That is basically what we are trying to do with our ACCESS Education Program, to train a new generation of rural leaders as well. Let them go to college and let them come back and help solve these problems. We could also do that through the institute.

I want to figure out how we could use the Extension Service in a comprehensive program, and you have made some very good suggestions. I am delighted to see that we are thinking the same way and look forward to your help in selling this program with the Extension Service and other farm groups because that is going to be necessary.

Ms. **Somersan.** Thank you.

Mr. **English.** Thank you very much, Doctor, excellent testimony.

Our next witness is Mr. Gary Goldberg, who is with the Nebraska Ethanol Authority and is vice president of the Clean Fuels Development Coalition in Kearney, NE.

Mr. Goldberg, we are happy to have you here today, and if you would care to summarize your testimony, your complete written testimony will be made a part of the record.

STATEMENT OF GARY GOLDBERG, MEMBER, NEBRASKA ETHANOL AUTHORITY AND DEVELOPMENT BOARD, AND VICE PRESIDENT, CLEAN FUELS DEVELOPMENT COALITION

Mr. **Goldberg.** Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, I am Gary Goldberg. I am here to speak as a board member of the Nebraska Ethanol Authority and Development Board, as the vice president of the Clean Fuels Development Coalition, and most importantly, as a Nebraska corn farmer.

Much has been said about allowing farmers some flexibility in a new farm bill and how to achieve flexibility is certainly open for debate, but I contend that what farmers in rural America need most is not so much flexibility, but stability. That is what the Nebraska Ethanol Authority is trying to do.

The Nebraska Ethanol Authority and Development Board was established as a State agency in 1986. The primary purpose of the ethanol authority is to assist the private sector in the acquisition, construction, or expansion of grain-processing facilities in Nebraska.

Special emphasis is focused on those projects which would include ethanol production. Investment and operating funds for the program were generated by an 18-month check-off assessed on grains sold in Nebraska. The board presently has a $17 million fund with which to make equity investments in qualified projects proposed by private companies.

This program is representative of the renewed emphasis on rural economic development. The program is focused on policy goals which are essential to rural revitalization efforts. Grain-processing industries are likely to locate in grain-processing States like Nebraska. These industries stimulate demand for the grain and add value to grain-derived products. The plants may be located in or near smaller rural communities.

Several benefits accrue to the rural economy when such industry recruitment efforts are successful. First, demand for grain increases. Those of us who produce grain can reasonably expect to see upward movement in grain prices do to increased local demand.

Second, we see new job opportunities which help retain our young people in areas where they may prefer to live. Without these employment opportunities, we see young people migrate to less satisfying jobs in urban areas. We lose a pool of talent and vitality crucial to rural revitalization efforts.

Third, new industry broadens the tax base which continues to depend on agriculture. An expanded tax base may lessen the burden on rural communities and rural States.

Last, the spin-off economic benefits associated with new industries are particularly evident in rural areas. During the construction and throughout the operational life of a plant, many auxiliary jobs are created in response to the needs of a new industry.

It has been shown historically that the best rural development tool available is a viable and expanded agricultural sector. By expanding ethanol production, commodity prices rise, which in turn provides more dollars being spent in rural areas.

When farmers benefit, so do rural banks, rural supermarkets, rural doctors and lawyers and all of rural Main Street. We are proud that Nebraska has continued to take the lead nationally in ethanol development. With congressional help in the form of extending the 60-cent Federal ethanol exemption to the year 2000, with your encouragement to grant the 60-cent Federal blender's tax credit to ethyl tertiary-butyl ether or ETBE, and with a Clean Air Act extension that encourages the use of all oxygenated fuels, Congress can go a long way in providing much-needed rural economic assistance.

We would encourage you to let the Nebraska program be used as a national example of how State government can help stimulate private sector investment in rural America. If this same type of program could be developed on a national level, rural areas of our country would immediately benefit from new economic opportunities.

In conclusion, Mr. Chairman, the cost of doing something will, in the long run, be far less expensive than the cost of doing nothing.

Mr. Chairman, I thank you and I would certainly be willing to answer any questions at this time.

[The prepared statement of Mr. Goldberg appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Mr. Goldberg. I appreciate your testimony. I think that certainly the recent events and reemphasis with regard to clean-burning fuels has underscored your testimony in much of what you have had to say.

I think unless and until it is mandatory in some form, that fuels that are burned be free of environmental hazards to at least some degree, I guess the question comes down to the economics of using ethanol and any ethanol blended with gasoline.

It used to be, I thought, around $2 was about where the break-even point was. Is that right or——

Mr. **Goldberg**. No, sir. Right now, the break-even point would be probably about $1.35 or something.

Mr. **English**. $1.35?

Mr. **Goldberg**. Yes.

Mr. **English**. It is doing better than what I understood.

As far as the oil companies that sell ethanol blends at their stations. How many stations do we have across the country these days?

Mr. **Goldberg**. Mr. Chairman, I really can't answer that for across the whole United States, but I will tell you that in my State of Nebraska, close to 42 percent sell the fuel and we lead the Nation now as far as the percentage of ethanol-blended fuel sold in our State, close to 37 percent of all the fuel.

Mr. **English**. Very good.

I think that you have given some fine testimony and we appreciate it very much.

Mr. **Goldberg**. Thank you.

Mr. **English**. Mr. Coleman.

Mr. **Coleman**. Has Nebraska devoted any resources to other industrial uses of corn, for example, the use for refuse bags, I understand, or is ethanol pretty much what you use?

Mr. **Goldberg**. No, sir. The Nebraska Corn Board, which works basically the same way as our board does, where they assess farmers a certain check-off fee, has done a great deal of research and development on biodegradable plastic bags and some of our major cities now in Nebraska are using those in dumps and waste areas.

We believe—I certainly believe, as a farmer, that if the same kind of resources were put into, let's say, an export enhancement program would be put into a domestic utilization enhancement program, we would certainly find a lot more uses for our grain.

Mr. **COLEMAN**. Thank you for your testimony.

Mr. **GOLDBERG**. Thank you.

Mr. **ENGLISH**. Mr. Stallings.

Mr. **STALLINGS**. Thank you, Mr. Chairman.

Mr. Goldberg, how many jobs in your State are associated with the ethanol industry?

Mr. **GOLDBERG**. We have one major plant in our State in Hastings, NE, which employs about 40 people. We are certainly encouraging other plants to come in and build. We also have American Eagle Fuels, which is the only firm right now that is producing commercially ETBE. They employ nine people.

Mr. **STALLINGS**. Do you see other spin-off industries associated with the ethanol industry?

Mr. **GOLDBERG**. Yes, sir. You can certainly look at all the gas stations that are selling the fuel. You can look at the distributors that distribute it. You can look at the people who work at pipeline terminals that are involved.

I guess you could look at all those who farm, too.

Mr. **STALLINGS**. Do you sense any impact on the price of corn or the demand for ethanol impacting the price of corn at all?

Mr. **GOLDBERG**. Yes, Congressman. We have seen through studies done by the University of Nebraska that corn in the State of Nebraska is anywhere from 8 to 15 cents a bushel higher. I know there are other numbers that have been floating around anywhere from 5 up to 22 cents, but the studies which we have seen are anywhere from 8 to 15 cents.

Mr. **STALLINGS**. Thank you.

Thank you, Mr. Chairman.

Mr. **ENGLISH**. Thank you very much, Mr. Stallings.

Mr. Goldberg, we appreciate your testimony. You have done a fine job. You have given some real help here. Thanks a lot.

We will recess subject to the call of the chair.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT BY GUY HYLTON, MAYOR OF ELK CITY, OKLAHOMA ON BEHALF OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS (NADO), BEFORE THE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT, COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES. JUNE 20, 1989

Mr. Chairman, members of the Subcommittee on Conservation, Credit, and Rural Development, thank you for inviting me to appear before you today. I am Guy Hylton, Mayor of Elk City, Oklahoma and a board member of the Southwest Oklahoma Development Authority (SWODA). I am accompanied today by Gary Gorshing, Executive Director of SWODA. I am testifying on behalf of the members of the National Association of Development Organizations (NADO).

With me, Mr. Chairman, are Gary Rader, Mayor of Weatherford; Don Rudolph, Mayor of Clinton; Gilmer Capps of Snyder, Majority Whip of the Oklahoma State Senate; and Danny George of the Oklahoma Municipal League. We are all here to demonstrate that Oklahoma stands ready to work together to help you pass meaningful rural development legislation.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

The National Association of Development Organizations (NADO) was founded in 1967 to maintain and create jobs in small metropolitan and rural communities. NADO's members are substate, multi-county planning and development organizations. These public-purpose institutions are the development professionals who work with local governments and the private sector to promote business, community, and economic development. NADO is the national grassroots network dedicated to improving the economic opportunities and quality of life for all rural Americans.

While "development authority," "regional council," and "economic development district" are not yet household words, these organizations are an essential part of the institutional infrastructure at the local level in rural America. Development districts are multi-functional; they respond to the varying needs of different local communities by providing a broad range of services. For example, in areas with a large elderly population, districts focus on providing aging services. Others have strong job training programs to improve the local workforce. Virtually all of these institutions provide small business assistance and development at the local level.

Districts involve the entire community -- the private sector, local governments, community leaders -- in the growth and improvement of the local community. If rural America is to survive, I believe that we must use the regional approach. Districts are comprised of the local network, yet they also have the professional resources lacking in rural small town government.

WHAT IS RURAL AMERICA?

We often hear of a bi-coastal economy, with middle America missing the opportunities for economic growth. I disagree. The true dichotomy is the urban - rural split. Rural America has not kept up with the urban economic expansion. As the Wall Street Journal so accurately noted in an August 4, 1988 article:

> Metropolitan America is wallowing in nervous prosperity. Times are so good that people are afraid they can't last. In the other America, the forgotten one beyond the patches of urban and suburban wealth, people would like the chance to be afraid about good times lasting.

Discriminatory practices against rural areas have only added to the urban - rural disparity. The medicare reimbursement crisis has most recently spurred debate as reimbursement payments in rural areas are just 60 percent of the urban amount.

Rural America has suffered from massive reductions in federal investment. Since 1980, federal programs for rural economic and community development have been cut 74 percent (see 1980-1989 comparative budget chart at the end of this testimony).

ELK CITY AND THE SURROUNDING SOUTHWEST OKLAHOMA REGION

I have served as Mayor of Elk City, a city of 10,000, since 1986. As is the case across virtually all of rural America, I serve my city on a volunteer basis, drawing no salary. I have a florist business as my other career. As you know Mr. Chairman, during the 1980s, all of us in Southwest Oklahoma have experienced an economic decline so severe that communities have been forced to struggle simply to survive.

In 1982, at the closing hour of the energy boom, the Southwest region enjoyed a total employment of 63,968 jobs. By the end of 1987, as reported by the Oklahoma Employment Security Commission, the region had experienced a loss of 15,378 jobs, a decline of 24 percent.

Outmigration accompanied the economic decline. Some of the region's counties continue to lose in total jobs available, while others appear to have stabilized. However, the annual unemployment rate in 1988 of 5.9 percent is only slightly above the nation's unemployment rate of 5.5 percent, demonstrating the effects of this outmigration.

I have seen the stability of Elk City -- and of the entire eight county region -- crumble in the past decade as our agriculture and petroleum industries have fallen. A lack of public investment has likewise contributed to the region's downfall. The federal government has withdrawn from the battle, leaving cities and counties to work our way through the rubble of this economic collapse. With a dramatic loss in local governments' tax bases, and the quality of life in our communities has suffered.

Most recently, the citizens of Elk City voted for a one penny sales tax increase to help cover the cost of capital expenditures. We are doing what we can to save our community. We are not looking for a federal handout, but rather an intergovernmental partnership dedicated to revitalizing rural America.

Public investment is the only means to encourage and retain the private investment necessary to bolster our region. Government programs must be a part of the solution to the economic problems in the Southwest Oklahoma region and in most of rural America. Public investment serves to stimulate private sector growth, creating jobs and vitality in rural communities desperately seeking to improve their economic base.

EXISTING PROGRAMS FOR RURAL DEVELOPMENT

Within the Department of Agriculture, only the Farmers Home Administration provides funding for locally-based, locally-controlled development programs. FmHA has the authority to fund strategic planning, infrastructure improvement, and small business assistance across rural America. The institutional infrastructure is already in place. What is lacking are adequate resources. The Consolidated Farm and Rural Development Act includes authorization for rural development through the following FmHA programs:

STRATEGIC PLANNING:

* Section 111 Planning and Technical Assistance grants provide funds to public bodies (state and local governments and consortia of local governments) for strategic planning and technical assistance. Strategic planning enables rural communities to analyze their prospects for growth and implement a plan to improve their opportunities. We recommend that multijurisdictional planning be funded at a preferential grant rate to encourage regional cooperation in rural areas. A strategic planning capability, for example, would allow rural communities to work together to confront the rural health care crisis. As rural hospital's continue to close, a coordinated system of emergency medical services and a regional hospital could provide adequate health care. Section 111 has not received funding since 1981.

* The Water and Waste Disposal Planning program funds the preparation and planning for water supply or waste disposal systems. These grants have not been funded since the 1970s. Priority within this program should be given to solid waste management planning.

INFRASTRUCTURE IMPROVEMENT:

* Water and Waste Facility loans finance the treatment, storage, and distribution of water, and the collection and disposal of waste. These FmHA water and waste infrastructure programs are the only affordable financing sources available to small communities. Small-scale facilities cannot be effectively financed through the tax-exempt bond market.

* Water and Waste Facility grants, like the Water and Waste loans, are make to help finance the use or control of water and the construction and improvement of waste disposal facilities. Normally, these grants are made in conjunction with Water and Waste facility loans.

* Community Facility loans construct or improve facilities such as fire stations, medical clinics and multipurpose community hall essential to rural residents. Again these loans are the only affordable source of funding for small-scale facilities.

SMALL BUSINESS ASSISTANCE:

- Business and Industry Development grants direct public bodies or non-profits to finance the development of small businesses in rural areas.

- Business and Industry guaranteed loans assist in obtaining financing for small businesses. These loans may be made to small businesses or to public bodies and non-profits to improve the economic or environmental climate of a rural community.

- Rural Enterprise loans may be made directly by FmHA to establish small businesses in rural areas.

- The Intermediary Relending program makes loans to public bodies and non-profits at one percent interest. In turn these agencies can finance rural small businesses below the market rate.

We urge the Congress to exercise oversight over the administration of these programs. Our federal investment in rural America includes more than the appropriation of funds. We need the Congress to continue monitoring these federal programs, ensuring that such funds are reinvigorating rural America and providing opportunities for all rural Americans.

REVOLVING LOAN FUND: A MUCH NEEDED INVESTMENT

Revolving loan funds (RLF's) are the most effective means for small business development. RLF's have a proven track record, as the Commerce Department's Economic Development Administration (EDA) RLF program demonstrates. EDA has capitalized over 100 RLF's across the country, however the program's $12 million appropriation is far too low to satisfy the need for small business financing in rural America.

Seed capital for business development is without question the greatest need in our area of the country. In your hometown of Cordell, Mr. Chairman, which did not lose a single bank during the Depression, all three banks and an S&L have shut their doors. In Elk City, we have lost a bank and two S&L's have been forced to merge. Yes, small business growth in rural areas has been outpaced by urban centers. The problem, however, is not a lack of rural entrepreneurs but rather inadequate financing resources and management assistance for rural small businesses.

In any RLF program, we must provide flexibility in the local match. In the Southwest Oklahoma region, we simply cannot round up a sufficient private sector match. Our banks and S&L's are either loaned up with farm commitments or FDIC regulations prevent the financing of the type of loans necessary for small business development. Additionally, Oklahoma's constitution prohibits the use of state funds for business lending. We need flexibility to allow for the capitalization of RLF's in communities unable to provide a 100 percent match. Perhaps a required match on a loan by loan basis would solve this problem.

On June 14, the Senate Agriculture Committee unanimously approved "The Rural Partnerships Act of 1989" (S. 1036). This bill creates a $100 million Rural Business Investment Fund to capitalize locally-controlled revolving loan funds. As a mayor of a small town in Oklahoma and as a representative of NADO, I strongly endorse S. 1036. The bill provides essential financing resources at the local level for meaningful rural economic development.

Other provisions of the Senate bill include increased funding for FmHA water and waste facilities, and rural economic development by the Rural Electric Administration (REA). I know that SWODA and the rural electric cooperatives in Southwest Oklahoma have worked very closely to improve the economic conditions in our region. I believe that the Senate bill provides a vehicle to infuse federal investment into our rural towns and counties.

FUNDING FOR THE RURAL DEVELOPMENT INITIATIVE

Mr. Chairman, the Budget Reconciliation has recognized the needs of rural America by providing $300 million in the fiscal year 1990 budget plan. For the first time in ten years, there is new funding for rural development initiatives. We urge the Congress to swiftly enact new authorizing legislation so that funds can be made available in this fiscal year.

Mr. Chairman, thank you for holding these hearings. We have a tremendous opportunity before us to revitalize rural America, and I certainly appreciate the leadership of the members of the Agriculture Committee. The members of NADO look forward to working with the Committee to pass rural development legislation this year. I would be happy to answer any questions.

(Attachments follow:)

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS
Suite 372, 400 North Capitol Street, N.W., Washington, D.C. 20001 • 202/624-7806

FEDERAL BUDGET COMPARISON, 1980-1990, RURAL AND RELATED DOMESTIC PROGRAMS

(Millions of Dollars)	1980	1989	Proposed 1990	Difference 1980-1990	Percent Change
DEPARTMENT OF AGRICULTURE					
FmHA					
Water & Waste Disposal Grants	290.0	109.4	75.0	-215.0	-74.1%
Water & Waste Disposal Loans *	700.0	330.4	250.0	-450.0	-64.3%
Community Facility Loans *	240.0	95.7	50.0	-190.0	-79.2%
Business & Industry Grants	10.0	6.5	0.0	-10.0	-100.0%
Business & Industry Loans *	1073.9	295.7	95.7	-978.1	-91.1%
Fire Protection Grants	3.5	3.1	0.0	-3.5	-100.0%
Planning Grants (Sec. 111)	6.0	0.0	0.0	-6.0	-100.0%
Rental Housing Loans *	881.3	554.9	100.0	-781.3	-88.7%
Resource Cons. & Development Loans *	1.0	1.2	0.0	-1.0	-100.0%
SCS - RC & D Projects	32.0	25.0	24.5	-7.5	-23.4%
APPALACHIAN REGIONAL COMMISSION					
Total Non-Highway Programs	126.6	69.4	0.0	-126.6	-100.0%
Research, T.A., Other	2.6	2.6	0.0	-2.6	-100.0%
Local Development Districts	5.7	3.2	0.0	-5.7	-100.0%
DEPARTMENT OF COMMERCE					
EDA					
Planning Grants	33.6	23.0	0.0	-33.6	-100.0%
Public Works	260.7	126.5	0.0	-260.7	-100.0%
Economic Adjustment Grants	85.9	24.7	0.0	-85.9	-100.0%
Technical Assistance	30.7	6.7	0.0	-30.7	-100.0%
Research & Evaluation	4.2	1.2	0.0	-4.2	-100.0%
Direct Loans	116.4	0.0	0.0	-116.4	-100.0%
Total Program Funds	531.50	194.8	0.0	-531.5	-100.0%
Loan Guarantees *	425.0	150.0	0.0	-425.0	-100.0%
Salaries & Expenses	40.8	24.7	20.0	-20.8	-51.0%
REGIONAL DEVELOPMENT (Title V)	109.4	0.0	0.0	-109.4	-100.0%
ENVIRONMENTAL PROTECTION AGENCY					
Construction Grants	4900.0	1950.0	1,200.0	-3700.0	-75.5%
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Administration on Aging					
Services and Centers	269.5	277.0	276.6	7.1	2.6%
Congregate Meals	270.0	357.0	356.7	86.7	32.1%
Home Delivered Meals	50.0	78.0	78.5	28.5	57.0%
Reasearch and Training	54.0	24.0	24.2	-29.8	-55.2%
In-Home Frail Elderly	0.0	5.0	4.8	4.8	n.a.
Community Serv. Block Grant(80-81 CSA)	550.5	377.6	0.0	-550.5	-100.0%
National Health Service Corp.	77.5	47.8	20.5	-57.0	-73.5%
Rural Development Loan Fund	20.0	0.0	0.0	-20.0	-100.0%

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FEDERAL BUDGET COMPARISON, FY 1980-1990, RURAL AND RELATED DOMESTIC PROGRAMS

	1980	1989	Proposed 1990	Difference 1980-1990	Percent Change
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Comm. Dev. Blk. Grant-CDBG (30% rural)	3862.0	3000.0	2,792.0	-1070.0	-27.7%
Urban Dev. Act. Grant-UDAG (25% rural)	675.0	121.0	0.0	-675.0	-100.0%
Rehabilitation Loans 312	[illegible]	[illegible]	0.0	[illegible]	-100.0%
DEPARTMENT OF INTERIOR					
State Outdoor Rec. (LWCF) Grants	318.6	16.7	0.0	-318.6	-100.0%
State Historic Preservation Grants	43.8	32.7	0.0	-43.8	-100.0%
Payment in Lieu of Taxes (BLM)	108.0	125.0	105.0	-3.0	-2.8%
DEPARTMENT OF LABOR					
JTPA State Block Grant (1980 CETA)	3342.0	1787.8	1,787.8	-1554.2	-46.5%
Summer Youth (1980 CETA)	2330.5	709.4	709.4	-1621.1	-69.6%
Dislocated Worker (80 Trade Adj. Asst)	1664.4	283.8	371.3	-1293.1	-77.7%
Comm. Service Empl. for Older Amer.	266.9	343.8	336.0	69.1	25.9%
SMALL BUSINESS ADMINISTRATION					
503/504 Cert. Development Co. Loans *	250.00	450.0	332.0	82.0	32.8%
Small Bus. Investment Co. Loans	148.8	233.0	118.0	-30.8	-20.7%
Minority Ent. SBIC Loan- Direct	32.5	36.0	36.0	3.5	10.8%
General Business Loans (Guaranteed) *	3000.0	2421.0	2,453.0	-547.0	-18.2%
General Business Loans- Direct	219.7	0.0	0.0	-219.7	-100.0%
SBDC Program	3.9	45.0	0.0	-3.9	-100.0%
Sec. 502 Dev. Company Loans- Direct	44.7	0.0	0.0	-44.7	-100.0%
TENNESSEE VALLEY AUTHORITY					
Economic & Comm. Resources	12.4	12.0	0.0	-12.4	-100.0%
DEPARTMENT OF TRANSPORTATION					
Local Rail Service Assistance	82.6	5.3	0.0	-82.6	-100.0%
Sec. 18 Mass Transit Grants-100% rural	57.1	66.4	0.0	-57.1	-100.0%
Aircraft Purchase Loans *	650.0	0.0	0.0	-650.0	-100.0%
Appalachian Highway Systems	228.7	70.5	0.0	-228.7	-100.0%
Secondary (Rural) Highway System	889.4	350.0	324.5	-564.9	-63.5%
Payments Air Carriers(Local Air Serv.)	95.8	25.0	0.0	-95.8	-100.0%
DEPARTMENT OF TREASURY					
General Revenue Sharing	6854.9	0.0	0.0	-6854.9	-100.0%
TOTALS	36,597.9	15,194.7	11,941.5	-24656.4	-67.4%

NOTE:
Asterisk * indicates Loan Guarantee authority

Testimony of:

BOB LAKE

Mayor

MOUNDVILLE, ALABAMA

and

Chairman

West Alabama Planning and Development Commission

Subcommittee on Conservation, Credit, and Rural Development
of the Committee on Agriculture

in the

U. S. House of Representatives

On

Rural Development

June 20, 1989
Washington, D.C.

Thank you, Mr. Chairman and members of the Subcommittee for inviting me to appear here today. I am Bob Lake, Mayor of Moundville, Alabama, and Chairman of the West Alabama Planning and Development Council. As we work to strengthen and diversify our local economy, your Committee's rural development hearings are of great importance to our future. Accompanying me today is Lewis McCray, Executive Director of West Alabama Planning and Development Council.

Moundville, Alabama, is a town of 1,310 people, located in west central Alabama. Primarily, its employment force is employed in Tuscaloosa, with the major employers being the University of Alabama, VA Medical Center, B.F. Goodrich-Uniroyal Tire Company, Bryce Mental Hospital, Partlow State School, and state and technical colleges. We have only several small industries employing from 3 to 100 employees.

Large metropolitan cities and big counties receive entitlements under the Housing and Urban Development (HUD) Community Development Block Grant (CDBG) program. Small cities, however, with eh loss of revenue sharing and massive cuts in rural development funding, have been cast adrift to search for an island of economic and community stability in a sea of underemployment and outmigration.

Regional planning and development organizations, known variously as economic development districts, regional councils, councils of governments and the like, provide planning, technical assistance and services otherwise unavailable in most rural areas. Elected officials of rural governments, like myself, serve on a part-time basis and have no staff for economic development.

In Moundville, we depend on our regional organization, the West Alabama Planning and Development Commission, for professional assistance. Our Commission serves the region in a number of capacities. Generally, most multi-jurisdicational organizations are multi-functional. Many administer job training programs, elderly services, and other valuable programs according to the region's needs. Frequently covering areas of six to eight counties, regional development organizations assist both local governments and the private sector. For more than 20 years, these institutions have exemplified the public-private approach to economic and community development.

Hundreds of these regional development organizations exist across rural America, and I believe that we must look to these institutions for leadership in our rural areas.

Regional development organizations provide the mechanism by which governments, businesses, and citizens may join together and take action to improve the economic conditions of their region. Local elected officials, leaders from business and labor, and citizen representatives including minorities and the poor comprise the board of directors of these public-purpose institutions. Local government involvement ensures a vehicle for long-term effort. Private sector and citizen participation guarantee that regional initiatives reflect the grassroots interests of the community at large. Regional development organizations serve small governments, small businesses, and community groups.

These multi-county development organizations are the catalysts fro strategic planning in rural America. Development practitioners examine the local economy and analyze prospects for growth. Based upon accessibility, natural resources, local work force, and many other factors, these organizations establish an overall economic development plan. Initiatives may include infrastructure construction and rehabilitation, local entrepreneurship, current business expansion, and plant location depending upon the relevant factors. Working with local communities, the development organization constructs the plan and sets it in motion. Through technical assistance, regional organizations provide the knowledge and expertise required to create conditions for economic growth. They often furnish the needed direction and assistance for a struggling community or an inexperienced small business owner.

The remarkable diversity of rural America dictates that for rural development to be effective, it must be locally-based. In setting goals and making decisions, practitioners must be responsive to the local economic and social environment as well as the global framework. Communities must build from the local level with the combined resources of all levels of government and the private sector. Regional organizations provide the framework to coordinate development at the local level.

Regional planning and development organizations are an essential resource for rural development. Successful economic development requires not only access to accurate information -- local, state, federal, global -- but also the presence of professionals who can translate such knowledge into action. Through the years, these organizations have become an integral part of the "institutional infrastructure" of rural America.

Mr. Chairman, we know, because we are in the center of education for Alabama with community and technical colleges and the University of Alabama main campus, the importance of education. While that is not a primary function of this Subcommittee, these resources can and must be utilized by cities, towns, and regional development commissions to assist us in our quest for economic development.

As a small town mayor, I can tell you that what rural America wants is the chance to be competitive, the opportunity to develop our towns, our counties, and our regions into successful areas, with good jobs providing a solid tax base for our local communities to improve the quality of life. There is no question, however, that we need federal investment in order to spark such growth in rural America.

Above all else, we need to spur small business growth in our community. Currently there is little funding available in our region for business start-ups. We must increase this funding in order to bring greater opportunity to West Alabama. In answer to your question of specific programs, I believe that a revolving loan fund, locally controlled and tied into a comprehensive development strategy, would provide the key to improving our local economcy.

Funding must provide flexibility to that communities can focus in on developing local strengths. For example, in Moundville there is an old Indian tribe site which has strong tourism potential. Planning money would help us determine the feasibility of further developing this area as a tourist attraction.

Within the Department of Agriculture, programs are currently authorized which could address many of the problems we are experiencing in rural America. Unfortunately, these programs have been either cut totally or reduced to such a small appropriation that they have been ineffective for rural areas. These include the following FmHA programs: Section 111 Planning and Technical Assistance; Business and Industry Grant and Loan Program.

Mr. Chairman, we would recommend funding at $20 million for Section 111 Planning and Technical Assistance and $300 million for Business Industry Grant and Loan Program, with no loan to exceed $10 million, so that rural areas can take advantage and compete in economic development.

The fiscal year 1990 budget resolution has $300 million for new rural development programs. I believe that we must move legislation now while we have the opportunity.

On behalf of the West Alabama Planning and Development Council, I want to thank you and the members of this Subcommittee for the opportunity to appear before you so that you might know the thoughts of rural America.

STATEMENT

OF

THE AMERICAN BANKERS ASSOCIATION

ON

RURAL DEVELOPMENT

PRESENTED

TO

THE HOUSE AGRICULTURAL SUBCOMMITTEE ON

CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

BY

MICHAEL GROVE

JUNE 20, 1989

Mr. Chairman and Members of the Committee, I am pleased to be here to participate in this hearing on behalf of the American Bankers Association (ABA). I am Michael Grove, President, First National Bank, White Sulphur Spring, Montana, and I am a member of the Executive Committee of the Agricultural Bankers Division of the ABA.

Our Association's members represent about 95 percent of the industry's total assets, including 5,000 agricultural banks. Approximately 85 percent of our members are community banks with assets of less than $100 million. But one of the advantages that the American Bankers Association has in this discussion of rural development is that we have access to the resources of small community and agricultural banks, regional banks and money center banks, all of which have an interest in restoring economic vitality to the rural communities of this country.

We are concerned about the current situation. For example, I am from a rural community of 1,500 and a county of 2,500 in central Montana. Despite the serious efforts that I have seen my community make and in which my bank has participated, I see a continued erosion of population and economic activity. I am not alone. Many other bankers in other communities share my concern. For that reason, the American Bankers Association has made rural development one of its focal issues for 1989. I am pleased to assure you that the Agricultural Bankers Division will have a major role in this effort.

I do want to note that the ABA recognizes that the problems facing rural communities are inter-connected. Education, health care facilities, infrastructure systems and other factors are very much a part of any rural development equation. Credit is only one aspect of the total picture. My comments are primarily directed at the appropriate role for banks, but we are involved in discussions with representatives from these other key areas. We must all work together in our communities, and we should work together here at the federal level as well.

Mr. Chairman, rural communities (especially those heavily dependent on agriculture and natural resources) are going through a period of wrenching change. As employment opportunities disappear, skilled workers and the young are migrating from rural to urban areas in search of jobs. Local governments in agricultural areas are faced with reduced tax bases and deteriorating infrastructures.

The magnitude and intransigence of these problems have all been well documented. Solving them will require the best efforts of both the public and private sectors. We commend this subcommittee for holding this series of hearings to explore the difficulties facing rural America and to contribute to the development of policy initiatives to begin revitalizing our rural communities.

Experts in agricultural economics believe that the farm sector is stabilizing. However, the severity of the recent cyclical downswing of U.S. agriculture taught us a valuable lesson about the need for economic diversification in our rural communities. Without diversification, we will remain extremely vulnerable to future fluctuations in the farm economy.

Economic diversification will not be easy to achieve. Policies which encourage public and private investment in rural America are a vital ingredient in rebuilding the economic base of farm communities. As the basic comprehensive financial intermediaries in rural areas, banks must play a central role in this investment process by providing credit to assist new businesses, to encourage diversification in agricultural production, and to fund improvements in education and community infrastructure.

Local banks have a major stake in the economic health of their customers, and they are uniquely qualified to meet the credit needs of their communities. But banks must also operate within the parameters of safety and soundness laid out by bank regulators. I want to stress this point because bankers are sometimes accused of lacking concern for those who wish to borrow but lack collateral and/or adequate cash flow.

The banking regulatory system of this country is designed to protect banks' depositors. To do that, the regulators examine our loans very carefully to be certain that they are adequately secured with an appropriate cash flow. If the regulators determine that a banks' loans are not of sufficient quality to protect the safety and soundness of the institution, they classify them as substandard. A number of classified loans can lead to very negative consequences for the banks' management and directors. The bank may not survive.

My point here is that we must look carefully at what the real problems are in rural areas as we seek to craft solutions. If we want to start new businesses from scratch, we need a better mechanism for getting venture capital to rural areas - not necessarily loans. If we want to lend money to borrowers without collateral or experience as a public policy, then we should look at the appropriate mechanisms to do that while continuing to protect the safety and soundness of our commercial banks. For example, we should examine the existing programs of the Small Business Administration and the Farmers Home Administration and consider the options for modifying and expanding them.

However, we should not simply assume that our existing institutions do not want or are not able to achieve the public policy goal of providing capital or loans to businesses in rural areas. There are impediments to some of this involvement that result from bank regulation. Therefore, we must identify carefully the goal that we seek and then look for appropriate means to achieve it. As we do this, we should not ignore the already existing goal of protecting the safety and soundness of our financial institutions.

Federal loan guarantees offer one way to allow banks to provide the credit necessary to build a diversified economic base in rural areas while at the same time protecting the financial integrity of the banks. Our Association has consistently supported limiting the use of direct federal loans, believing instead that guaranteed loans made through local lending institutions are a more appropriate way to provide credit to residents and businesses in communities.

Loan guarantees can be designed to suit various types of business needs. For example, a guaranteed line of credit offers a flexible way for businesses to handle cash flow problems and to assure businesses that their operating capital needs can be met by a local bank. A federal guarantee would allow a bank to extend such a line of credit even to new business ventures which might otherwise not have the necessary collateral to secure the loan to the satisfaction of bank regulators. The Farmers Home Administration's Business and Industry (B&I) guaranteed loan program for businesses affected by the drought authorized by the recent Disaster Assistance Act is an example of the use of the program.

Further, since there was more than $750 million in guarantee authority appropriated but unobligated during the 1988 fiscal year for the FmHA Farm Guaranteed Operating Loan Program, this unobligated guarantee authority could be reprogrammed to the B&I Program which is currently allocated only $96.4 million. In recent years, the B&I allocation has been fully expended within the first few months of each fiscal year.

In addition, the FmHA Approved Lender Program for Farm Programs should be modified to create a certification process for both farm and B&I loans that will streamline the servicing and processing of guaranteed loans. With careful design, the American Bankers Association believes that banks can participate and handle all paperwork including the processing, closing, servicing, and, if necessary, the liquidation of FmHA loans in a manner similar to the authority granted commercial banks through the Small Business Administration.

Businesses in rural areas also need risk capital. Frequently, start-up businesses should not take on additional debt; they need equity. There are programs that now exist at the Small Business Administration that encourage banks and others to create Small Business Investment Corporations (SBICs) that can provide this risk capital to small businesses. These programs have not been well utilized in rural areas. Exploration of incentives for the development of these SBICs in rural areas in conjunction with the Small Business Committee could prove to be very useful.

In addition, other mechanisms for banks to provide debt and equity financing to businesses in rural areas should be explored. While recognizing the constraints imposed by the necessity of protecting their depositors' funds, bankers also recognize that they have a vital interest in promoting economic activity in their rural communities. We are eager to participate in the development of mechanisms to promote that necessary activity.

As the owners and managers of small businesses seek to start up and expand, they need not only access to capital but sound financial advice as well. A financial plan is critical to the success of all business ventures, but may be beyond to reach of some farmers and small business people. One way to help local businesses gain access to professional financial counseling would be to assist each state's extension service to contract with local financial institutions. The extension service would then act as a conduit through which businessmen in rural areas could tap the financial expertise of local lenders in drafting their financial plans.

Many experts have stressed the need for improvements in rural communities' infrastructures to attract new businesses and to retain existing businesses. In particular, roads, water and sewer systems, utilities, and health care facilities are essential ingredients to support long range economic growth. Obtaining the necessary funds for such projects is made more difficult for small towns because banks cannot underwrite revenue bonds. We realize that this committee does not have jurisdiction over this area of revenue bond underwriting, but we do want to mention it because it does affect rural communities directly.

For some communities, federally guaranteed loans may be necessary to help fund infrastructure improvements. Such loan guarantees targeted towards public works programs may enable a local government to provide essential community services that it otherwise could not afford.

Mr. Chairman, the events of the 1980s have clearly demonstrated that the health of a bank is inexorably linked to the vitality of its local economy. The banking industry, therefore, has an important stake in strengthening and diversifying the economic base of the small towns and rural areas across America. Bankers offer knowledge of local markets, financial expertise, and a serious commitment to the revitalization efforts being made by your committee. We look forward to working with you and your colleagues on these very important issues. I would be pleased to respond to questions.

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STATEMENT OF
COMMUNICATING FOR AGRICULTURE

PRESENTED TO THE U.S. HOUSE OF REPRESENTATIVES AGRICULTURE SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT
HEARING ON RURAL DEVELOPMENT
JUNE 20, 1989

Prepared by Bruce Abbe,
Vice President of Legislative Affairs
and
Laurel Sorlie,
Chair of the CA Rural Development Committee

Communicating for Agriculture is a national, non-profit rural association with national headquarters in Fergus Falls, MN

Chairman English, members of the Committee, I appreciate the opportunity to share with you the views of Communicating for Agriculture on rural development, the priorities and choices that we believe need to be addressed. I also want to commend you for the effort you have made to include so many different public groups and organizations in these discussions.

Communicating for Agriculture is a national non-profit organization made up of farmers, ranchers, small-business people and rural families in more than 40 states. We represent our members on a host of issues affecting rural people including, but not limited to ag finance, agricultural research and diversification, rural education, rural health care and economic development. To fulfill our role as communicators for rural people, we regularly survey our members as well as broader cross sections of the rural population on current issues.

To prepare for these Congressional hearings we've recently held our own focus group-type meetings to discuss what is being proposed with people working in rural development in small communities and regions in Iowa, Minnesota and eastern North Dakota. In addition, CA conducted a national survey in July of 1988 of some 300 community development officials and university extension service rural development specialists who work in economic development.

There are several key messages I would like to share with you that we've consistently heard, and I'm sure many of them will echo what you've heard from others.

- There is truly a need for what you are setting out to do. Re-energizing rural America should not be considered an option, but a top national priority. There is danger in the growing imbalance between the over-stretched growth of certain urban areas -- with the accompanying high cost of housing, crime and demand for water, transportation and public services -- and the decline of rural America and the opportunities for people who would choose to live there.

- Local involvement and leadership is the key to nearly all successful rural development efforts. The role of federal and state government should be to provide effective tools to local and regional initiatives, to encourage the emergence of local ideas and local leadership to improve the vitality of their community.

- The legislative package that is being proposed is good in that it seeks to address many of the areas that need attention -- infrastructure, encouraging more private financing, improved telecommunications systems and other services.

- Our biggest concern is that there won't be adequate funding, when it's pared down and parceled out, for many of these programs to function effectively and achieve what is intended. Congress should fund the programs already in place and strive to make them work more effectively before creating new programs that again may be under-equipped.

- Diversification is the key goal. We must find and support the development of creative ideas from the bottom-up rather than top-down. We must assist entrepreneurship, which in fact is very much alive in rural America.

- Flexibility is critical to any new programs. Federal and state programs must be accessible and adaptable so they can be used by the many different kinds of initiatives and new ventures that are emerging in rural America, rather than requiring that those local programs adapt to meet federal regulations that are unworkable for the local area.

- Don't forget agriculture when addressing rural development. There is both a need and an opportunity for new farmers, new crops and new utilization of agricultural products that could yield much long-term strength for rural community development.

Legislative Issues and Recommendations

Encouraging Private Lending -- The limits on available federal dollars to support new rural development is clear. We support your efforts to leverage federal dollars by encouraging more private lending through the use of using loan guarantees, rather than grants, and formation of local revolving loan funds.

Requiring matching funding from local investors can be an advantage, because it not only leverages more investment dollars, it also stimulates local action to form such lending programs, and involves local lenders who are in the best position to evaluate the merits of an initiative. Local investment can protect the quality of the business loans and community projects.

But again, the message we've heard time and again is local officials should have the key decision-making authority for making these loans. The federal programs need to be adaptable to serve the different kinds of local or regional finance programs that may exist in different parts of the country. Simple, clear guidelines should be set by the federal government, and federal review should take place after the loans are made. There must be accountability, but when advance approvals are required all the way up the line the process can get too complex and time-consuming to be functional. "It all boils down to trust and how to build that into our public and private partnership," one Iowa official told us. But when you've got a substantial amount of local investment and participation, that mutual trust should largely be built-in and the federal government can focus its concern with evaluating the overall performance of the matching fund program, as opposed to signing off on each individual project with all the red tape and time that involves.

Help for Hard-pressed Areas -- At the same time, we must realize that while there is merit in matching funding programs, there are some rural areas that simply don't have the tax base or any local private sources of funds available for investment. There is a need for the very hard-pressed, poverty stricken counties to have access to funds for necessary public services with less restrictive co-investment requirements. A sliding-scale mechanism for matching funds could help these areas.

Several local people advised that the criteria for determining areas with the most need should be reexamined. Targeting an area primarily because of high unemployment often will rule out assistance to other areas with just as great a problem. "We export our unemployment right out of high school," said one local official. Loss of population should be a key criteria in determining need, we were advised.

REC Initiatives -- Widening the authority of rural electric cooperatives to use available funds for rural development purposes is a concept we also support. The RECs have a close tie to the community. They have demonstrated long service to rural areas and are already a key part of the infrastructure. We have also been told that it will be critical to see that any new rural development authority for these agencies account for the need for cooperation and coordination with other institutions that also serve the local areas. A town should not be left out of access to REC funding because it has traditionally been served by a municipal power company.

Creating a Capital Pool -- Creating a large pool of capital raised from Wall Street, similar to the Farm Credit Capital Corporation, where local private lenders, cooperatives and non-profit corporations formed by local units of government could access lower-cost funds for infrastructure loans is also a concept that has merit. USDA's estimate last year that it will take between $20 and $40 billion in capital expenditures to bring water and waste-water treatment facilities up to national standards points out the need for additional sources of funds.

But we urge you to recognize that there are limits as to how far government can and should go trying to shift infrastructure development to the private sector. FmHA has an established, proven capability in this area. It's put water and waste systems into 400 communities in Iowa, for example, while the capability of new players to deliver is still uncertain.

Cost Savings in Infrastructure Projects -- One area that we strongly urge you to look into is the designs and standards that are mandated for these infrastructure projects to see that they do not go beyond what's appropriate for local needs.

"When the water treatment facility covers an area that's as large as the town, something is wrong," one area FmHA official told us. The same holds true in bridges and roads. It is not only costing the government millions, if not billions, in costs beyond what is necessary, it is also preventing local governments from moving ahead and making improvements they need.

It was specifically recommended that you look at how private contractors are paid. When they are paid according to a percentage above the basic costs of a project, they have every incentive to negotiate the most elaborate and costly system they can within the guidelines. We should find ways to provide incentives for contractors who come up with the least costly designs and construction methods consistent with quality requirements.

Start-up Capital for Small Business-- Diversification of the rural economy is the goal. That means developing new service industries and manufacturing industries and bringing new applied technology to rural areas. It also means diversification into production of entire new products and crops in traditional rural industries like agriculture and manufacturing. To achieve this kind of diversification inevitably means that there are more risks involved. Very often the entrepreneur behind these ventures requires only a small amounts of start-up capital. Yet traditional lenders, public and private, have shied away from these less conventional, small loans.

Representative Tallon has noted that the average Small Business Administration loan guarantee in fiscal year 1987 was for $165,000, while the average guaranteed loan through the Farmers Home Administration's Business and Industry Program totals $1.1 million.

We encourage you to insure that new local revolving funds that receive federal participation funding, as well as existing federal development programs, are given authority and encouragement and to make small, venture capital loans.

We also believe there is much merit in the Small Business Rural Revitalization legislation that has been introduced in the Senate by Senators Boschwitz and Baucus, and we understand will soon be introduced in the House Small Business Committee. It would provide some limited funding and authorize administrative changes that would assist local development organizations to raise venture capital and capitalize of local revolving loan funds for rural microbusinesses.

Reorganizing USDA -- We found some support in the field for reorganizing USDA to put all rural development functions under one agency, as was suggested by the GAO study done for Representative Coleman. Our survey of rural development specialists found that 55% of the respondents favored a reorganization, while 25% were opposed and 20% were neutral. Some 65% favored creation of a higher profile, undersecretary of rural development post.

However, we are concerned that any reorganization really does, in fact, streamline the process and make the department's rural development programs more accessible to local people. We must guard against creating another layer of bureacracy to sort out other layers of bureaucracy.

People in rural development say that networking with others in the business is one of the most important functions they do. When someone comes in with a new business idea or need for information about a public financing program, they need to be able to put them in contact with the best resources in the local area to address their need. The first step a reorganization should be to facilitate that networking when it comes to the various rural development programs in the department -- for local people to get in contact with the right people who can serve their needs.

Importance of Technical Assistance -- Rural development people tell us that improving and expanding technical assistance to small, developing rural businesses is extremely important, every bit as important finding new financing mechanisms. Management training and assistance is needed. Rural industries need to reach out and tap the marketing research, distribution, promotion and related expertise that often is located in urban areas. Rural entrepreneurs and businesses need to access and use the best resources available so they can get better control of their marketing.

Small Business Development Centers, largely federally-funded, are programs that work in this area and should receive continued federal support with more resources focused on rural areas.

Equity for Rural Areas -- The GAO study's findings that rural areas received significantly less than an equitable share of funding through Small Business Administration loan and grant programs, including those that were supposed to have a rural focus, compared to urban areas is an issue that should be addressed.

We support the concept, outlined by Representatives Dorgan and Upton at the start of these hearings, which would require federal economic development programs provide at least a "fair share" of funding for rural areas. We urge that this include the location of new buildings, facilities and federal and state agency operations. Equity for rural areas should extend in our view across the board - certainly to Medicare reimbursement rates to rural hospitals. Even the gas tax, we understand, has a disproportionate impact on rural areas because of the longer distances rural people typically must travel.

Tax Exempt Status for Bonds -- CA also supports the Representative Hatcher's urging that tax-exempt bonds for municipal projects and business expansion continue to receive favored tax treatment -- particularly Small Issue Industrial Development Revenue Bonds which face a sunset at the end of this year. It would be a major mistake to lose this important, proven tool while we shop for new, untried tools.

Aggie Bonds -- CA has a strong interest in one special program -- Private Activity Bonds for Beginning Farmers. This very small program has been used by states to create programs to help small, beginning farmers get started in the business through loans at favorable interest rates. As many as 24 states had such programs in the mid-1980s, most of them utilizing Aggie bonds. Following the farm credit crisis in the early and mid-1980s, and passage of the Tax Reform Act of 1986, many of these young farmer programs languished.

But CA firmly believes now is an important time for states to reactivate these programs. We lost a generation of farm families during the farm credit crisis, people that made up a key part of the "human infrastructure" so important to the long-term health of the rural community. Yet right now a young farmer can get started in the business at roughly half the investment it would have taken in 1980. There is both a need and an opportunity to help young people who want to farm. Extending or removing the sunset on IDBs is one way Congress can assist states in this effort. The cost to the government is small and the program is already in place.

Industrial Uses of Agricultural Crops -- Agriculture can and should play a key role in the diversification of the rural economy. There is much promise and tremendous interest now in industrial uses of agricultural commodities -- both traditional crops and entirely new crops. Our survey of rural development specialists found that 76% favored more research into new industrial uses for agricultural crops. In a recent survey of our membership, 97% of respondents said this area should be a priority for our organization. We urge you to pass legislation which has been introduced by Representatives Penny, Madigan and Smith, which would encourage both commercialization and research on industrial uses of ag commodities.

Bottom-up Rural Development

We have a great deal of faith in the "bottom-up" approach to rural development. Supporting the local entrepreneur or existing business looking to expand yields a best payback for development investments, because these people have the motivation needed to succeed, and a personal tie that will keep them permanently in the community.

Our support for the "percolate-up" rural development was reinforced by an international exchange program CA organized last year. In Australia we witnessed a model "bottom-up" rural development and farm diversification program that started out as a minor experiment and now is influencing all rural development efforts over there. The key to its success is its strict adherence to a philosophy of emphasizing helping local people pursue their own dreams and ideas. The program places a "facilitator" in the local community to serve as an advocate and mentor to assist would-be entrepreneurs launch their own ventures. In less than three years in the first community, a depressed coastal town of 10,000 people, the facilitator had assisted in the formation of 45 new businesses (with a combined annual turnover of $7.1 million) and helped add 77 full-time jobs. Repeated with similar success in another town, the program is now training and supporting facilitators to work in communities throughout the country.

We also have been pleased to learn about the success of a special program called the "Rural Diversified Enterprise Center" at Kirkwood College in Cedar Rapids, Iowa. Since 1985, the RDEC has provided technical training, special courses and information on diversification to some 1,300 farmers in eastern Iowa. Their efforts have hatched a wide array of value-added production and marketing enterprises in a seven-county area.

The secret to these programs, if there is one, is in their success at outreach -- in being easy to approach to ask for advice -- and in their ability to put the entrepreneur in contact with the right outside expertise that will help them make their dream a reality. These facilitators serve as the "networkers". They have no funds to give out, but they know where to send the entrepreneur for business planning help, financing help, and most importantly marketing help, be it in the county seat, Sioux Falls, Chicago, New York, or Japan. They are a wily bunch that is comfortable and committed to working with rural people, but they are savvy about the development resources that are available and they can make connections into the most sophisticated areas of business operations.

If there is one element missing in your rural development package, it would be a provision for application of the rural facilitator concept. A facilitator program ideally should be chiefly-sponsored by a local entity, but a small pilot program that could be started with some matching federal and state funds would be money well spent to determine if this is not the link that is missing in the rural development.

Thank you.

PREPARED FOR: Congressman Glen English, Chairman
Conservation Credit and Rural Development Subcommittee
House Agriculture Committee
United States Congress
Washington, D.C.

PRESENTED BY: Senator Gilmer Capps, Chairman
Policy Steering Committee
Center for Agriculture and Rural Development
The Council of State Governments
Lexington, Kentucky

June 20,1989

A PROPOSAL
TO ESTABLISH RURAL DEMONSTRATION PROJECTS
THROUGH THE 1990 FARM BILL

RURAL DEMONSTRATION PROJECTS PROPOSAL FOR THE 1990 FARM BILL

by the Center for Agriculture and Rural Development
The Council of State Governments

EXECUTIVE SUMMARY

We have a 3-part agenda for rural economic development: Jobs, Education and Technology. States are targeting more of their resources to rural areas than ever before, and we need federal agencies' support and assistance if we are going to keep rural America alive and healthy.

Each region's rural areas have unique characteristics, but that doesn't mean we need to create a new program or agency for each problem. What we need to do is use our existing programs to create new markets for farmers and other rural businesses, add value to our rural products and help our small communities develop plans for a viable future. Federal laws and regulations must give states flexibility to respond to our different regional needs.

Each federal agency with significant grant or loan authority should set aside 1/2 of 1% for Rural Demonstration Projects. 6 types of federal programs should be included: Rural Public Services, Natural Resources Policy, Income and Employment, Education and Retraining, Poverty and Health Systems.

Each Project should test new ways to deliver services, establish state-level coordinating mechanisms, or provide incentives for consolidating at the local level. Participating states would match the federal government dollar for dollar. Additional matches should be encouraged from private foundations, corporations and local governments.

The Center for Agriculture and Rural Development at the Council of State Governments could serve as an information clearinghouse about these Rural Demonstration Projects, the application process and the results. We would encourage states to use the results to make permanent changes in the way they fund and deliver services in rural areas. The Center would organize and sponsor regional meetings, document success stories, and publish studies about the Projects.

Rural Demonstration Projects can be implemented by most federal agencies during fiscal year 1990, and a three-year commitment to the approach is our recommendation. It should than be re-evaluated in 1992. The cost of this program would be modest; funds for the Projects would be drawn from existing agency budgets. Information, technical assistance, and evaluation would cost approximately $1 million per year.

A Proposal to Establish Rural Demonstration Projects

Congressman English, members of the Subcommittee, thank you for inviting me to be here today to share our ideas about ways to make the 1990 Farm Bill more responsive to the needs of rural Americans.

Since the turn of the century, we have seen a movement of people from the farms to the cities, but never in such numbers and with such consequences as during the 1980s. While 25% of all Americans were farmers in 1900, less than 3% farm today. And you tell us, Congressman, that one million people left rural America in 1986 and 1987. This is a situation most state legislators find unacceptable, as do the Governors, Commissioners of Agriculture, Lieutenant Governors and other state leaders the Council of State Governments represents. In 1985, we formed the Center for Agriculture and Rural Development as an organization dedicated to finding ways to stem this tide, and to identify new income opportunities for people who want to live and work in rural America.

I am Chairman of the Policy Steering Committee of the Center, a part of the Council of State Governments. I am also a third generation farmer who raises angus cattle, wheat and cotton. My granddad moved to Oklahoma in 1902 from Illinois, and my dad farmed with him. My wife and I bought the home place about 20 years ago, and we have been through it all. We can tell you about alternative crops from personal experience -- we've raised onions, cucumbers and squash, among other things. We don't have any trouble growing them, but we sure have trouble breaking into the markets.

Improving access to markets for both agricultural and other products from rural America has been one of our major areas of emphasis at the Center, and we believe state-led efforts are making a difference. Agriculture diversification, value-added, and marketing have gained new respect within state Departments of Agriculture and in the legislative budgetary process as a result of our efforts over the past several years. However, we need the federal government to continue its diligent pursuit of fair trade throughout the world, so that our farmers can compete on a level playing field in the international marketplace. We also strongly encourage increased funding for research into new crops, value-added products, and consumer behavior to help our farmers increase their profitability into the future.

The Need

Thirty years ago, agriculture was the dominant employer in rural America. In 1950, 15 percent of the population, 23 million people, lived on farms and one-third of the rural work force was directly engaged in agriculture-related jobs. By the 1980s, less than 3 percent of the population lived on farms, and as many people worked in manufacturing as farming.

Agriculture has gone through a major adjustment with 3 continuing problems: income (lower prices related to costs), debt (declining land values), market (competitive because of increased foreign competition). Most states are involved in market development programs, and their investment in this activity has grown considerably over the past 8 years. Many provide low-cost loans, but income support programs are still strictly the province of the federal government.

Each region's rural areas have unique characteristics and unique needs. New England and much of the Middle Atlantic Region are growing rapidly with housing and labor shortages, while the South's dependence on manufacturing, coal and agriculture has caused continuing rural poverty and unemployment. The Midwest and Great Plains are losing family farms, mid-sized farms and population, while the Rocky Mountain and Far West regions are on an energy-dependent boom-and-bust cycle.

There is growing evidence that rural areas and small communities are not just smaller versions of metropolitan America. While farmers and rural communities' needs are not different from those of other citizens, they need different types of service delivery systems because of their sparser population and more remote location.

For example:

> Rural Economic Development. Today, economic development assistance is available through community colleges, Small Business Development Centers, local governments and development foundations, banks, the Extension Service, regional councils & commissions, University Centers, and consulting firms, not to mention state and local economic development departments. Agencies compete with each other for clients, for capital, and for technically competent staff. Multi-state regional programs like the Applachian Regional Commission or the Tennessee Valley Authority are also providing economic development assistance.

Similar examples could be cited in the areas of human resources development and community development.

The Problem

What a maze we would draw if we attempted to illustrate the steps that people take and communities follow to improve their economic health and well-being! Rural communities are at a particular disadvantage in negotiating this maze for a number of reasons:

> First, those suffering from the economic downturns in farming, mining, oil & gas, fishing, and forestry have a greater need for assistance but less money to provide it;
>
> Second, the number of people requesting service, or businesses being started in a given geographical area is a major factor in determining where new facilities or service centers locate. Sparsely populated areas can't compete with major cities.

Third, fewer citizens means fewer service-delivery agencies and smaller staffs, often with less experience than their urban counterparts. It is the exception, rather than the rule, to meet a rural community leader that has had past experience in recruiting businesses or preparing grant proposals. Economic development is a new learning experience, not a profession.

The States Agenda. We have a 3-part agenda for rural economic development: jobs, education and technology. This is both a research and action agenda. We have asked states to invest in research on the comparative advantages of specific communities and regions within states, to invest in small and medium-sized business development, and to make state data available for local economic development planning. We have asked each state to study the content and structure of its basic and vocational education offerings in rural areas and to seek ways to coordinate or combine organizational resources whereever possible. And we have urged states to carefully evaluate the potential impact of biotechnology on their state's agriculture and to examine what needs to be done to assure rural areas are adequately served by the latest telecommunications systems.

In a study we conducted for the U.S. Small Business Administration last year, over 700 state government programs were identified which could be used for rural economic development. This far outnumbers the available federal programs, and we're fairly certain there are more today. If you haven't seen it, I highly recommend you get a copy of Working Together from SBA.

These state programs fall into 4 general categories: agricultural development, community development, business development, and transition assistance (See Table E from The Book of the States). They are almost always administered by existing state agencies or boards for the benefit of local communities. States do not try to lump all programs or responsibility for rural development into their departments of agriculture; rather, they spread the responsibilities throughout state agencies having jurisdiction over the particular problem. All rural areas have unique problems, unique needs, and that is why one program, whether it be federal, state, or local, will never be sufficient to turn around the problems in rural America.

Two years ago at our first national conference, we recommended states target resources to rural areas and coordinate existing resources to better serve rural needs. Last year, the National Governors Association endorsed this position as well, calling for states to establish coordinating mechanisms. The states of Illinois, New York, Georgia, and Pennsylvania are among those which now have this coordinating mechanism. In order for these state efforts to be successful, the federal programs must grant us added flexibility and sensitivity to different states' needs. Proposals I understand this committee has discussed, such as allowing the farm credit system to fund small business development or the rural electrification system to put telecommunications systems into rural schools, are good ways to begin this discussion --- but let me add a note of caution. Do not allow these federal agencies to establish another bureaucracy or another administrative layer for new programs, rather require them to work through existing state or local agencies to accomplish your goals. In our opincion, there are already too many different programs and government agencies out there without enough funding or staff to serve rural areas. This certainty has led to our proposal to create Rural Demonstration Projects which use a small amount of federal funds to leverage state and local investment in rural America.

THE PROPOSAL

Background. In an era of fiscal restraint and cuts in federal domestic programs, federal budgets of the 1980s have offered distressed rural communities little new assistance. In fact, with the elimination of General Revenue Sharing and cuts in public works spending, small communities and rural areas lost a sizeable portion of the meager federal aid they had. States have responded with added assistance where they could, particularly to match EPA construction grants and meet critical infrastructure needs, but their budgets are limited as well. In fact, every state but one is constitutionally required to have a balanced budget.

There were a few new federal programs started in which federal dollars were matched by states or the private sector. A Rural Mental Health Demonstration Program funded at $1.2 million in federal dollars, matched by state investments, promoted the development of comprehensive community mental health, health, job retraining, employment, and related services within rural communities. The Jobs Training Partnership Act made special grants to over a dozen states to establish displaced farmers programs. Twenty-two Rural Economic Development Demonstration Projects, funded through public-private partnerships, were established by the US Small Business Administration. These programs each encouraged intergovernmental collaboration among state agencies and between levels of government.

Cooperation among government agencies makes more programs available to rural citizens. Cooperation between government and the private sector stretches dollars further. A good example is the U.S. Department of Transportation, Urban Mass Transportation Administration's (UMTA) Section 18 and Section 16(b)2 programs. Rural transit funds from the federal government leverage state and local contributions which allow rural citizens to reach doctors, buy groceries, and attend social functions...to maintain a decent quality of life. Yet there are 114 different sources of federal funding for rural public transportation, primarily in health and human services programs.

In a 1986 study by the Center for Agriculture and Rural Development of the state role in rural public transportation,we recommended:

> "States should include rural public transportation issues and plans as part of their comprehensive rural development strategies. States can play a critical role in coordinating the flow of grant dollars, developing efficient management and contracting systems...and encouraging innovation."
>
> "State legislators should investigate how effectively coordinated their state's are, and encourage further efforts."
>
> "States should identify strategies which provide incentives for greater local support for rural public transportation."

Rural Demonstration Projects

Each federal agency with significant grant or loan authority which is directed at jobs, education or technology should set aside 0.50 of their budget (1/2 of 1%) to fund Rural Demonstration Projects. The Economic Policy Council's Task Force on Rural Development would serve as the coordinating body for the federal government, with the responsibility of monitoring compliance given to the USDA's Assistant Secretary for Small Community and Rural Development.

Using the comprehensive list included in a recent report entitled Options in Developing a New National Rural Policy, 6 categories of federal programs would be included:

Rural Public Services - the US Department of Transportation, Environmental Protection Agency, Department of Housing and Urban Development, Department of Agriculture, Department of the Treasury, Department of Health & Human Services, Appalachian Regional Commission and Department of Commerce

Natural Resources Policy - Department of the Interior, Department of Agriculture, Federal Emergency Management Agency, Environmental Protection Agency, and Department of Defense (Corps of Engineers)

Income and Employment - Department of Labor, Department of Health & Human Services, Department of Commerce, Small Business Administration, Tennessee Valley Authority, Environmental Protection Agency, and Department of Housing and Urban Development

Education and Retraining - Department of Education, Department of Agriculture, Department of Labor, Appalachian Regional Commission

Poverty - Department of Health & Human Services, Department of Agriculture, Department of Energy, Department of Housing and Urban Development, Department of Labor

Health Systems - Department of Agriculture, Department of Health & Human Services, Appalachian Regional Commission

The purpose of each Rural Demonstration Project will be to test new ways of delivering services in rural areas, establish state-level mechanisms for coordinating existing programs in new ways, and to provide incentives for consolidation of existing programs at the local level in order to increase efficiency and effectiveness.

Funds for Rural Demonstration Projects should be made available to states on a competitive basis. The states must match the federal funds, and each federal agency should establish award criteria which encourage additional matches from the private sector (foundations or corporations). Overall, a 3 to 1 match is desired. All projects must be conducted in cooperation with local development organizations or local governments.

In order to be eligible to participate, a state must:

> Designate a staff person responsible for planning and interagency coordination, located in an existing State agency designated by the Governor.
>
> Prepare a plan to establish on-going relationships among state, federal, local and private economic development, agricultural, and other organizations to mobilize their support to achieve program goals.

The Task Force on Rural Development, with advice and assistance of major state public interest groups (i.e., the Council of State Governments, National Conference of State Legislatures, and the National Governors Association) will develop a process to certify states as eligible to participate in the program.

Information about the Rural Demonstration Project funds and assistance in developing proposals should be provided in conferences co-sponsored by members of Congress, state legislators and state agencies during FY 1991. Outreach should continue during FY 1992 for those states not participating, and evaluation and dissemination activities should be conducted annually beginning in FY 1992.

Proposed Role of the Center for Agriculture and Rural Development.

1-To develop and hold 4 regional meetings about the new Rural Demonstration Project program once it is implemented. These Regional meetings should serve as a model for the state and local meetings called for in the new legislation.

2-To identify from among the Rural Demonstration Projects partnerships demonstrating cooperation and consolidation among government agencies and between government and the private sector, to specifically document the methods & procedures used, to identify the elements these innovations share, and to disseminate the results through conferences and publications.

Approach. College and University researchers with expertise in each program area will conduct case studies on the Projects selected for funding by the federal agencies. Three existing networks of researchers qualified to evaluate the Projects results are the Small Governments Research Network (social scientists and public administration), the Small Business Development Institute Directors' Association (business and economic development), and the 4 Regional Rural Development Centers (agricultural economics and rural sociology). A team will be selected for each demonstration project as it is announced by the federal agency.

The Center's Policy Steering Committee will meet with the Task Force on Rural Development to identify the types of partnerships most likely to be replicated in other states. The Center will prepare special reports on up to 20 of these each year and will hold several conferences, in cooperation with the appropriate federal agencies, to disseminate results and assist in replicating the demonstration projects.

A symposium will be held with researchers, government program administrators and private funders in each major policy area: Economic Development, Human Services, Community Development during the 3rd year of the program. Each symposium will identify common elements of successful demonstration projects, assess unmet needs and develop recommendations to Congress and the President.

Timetable. Year 1 - Develop regulations and procedures for selecting demonstration projects. Develop process to certify state eligibillity to participate. Hold conferences about the program(s). Federal agencies make initial awards.

Year 2 - Establish technical assistance and outreach programs, as needed. Evaluate the results of first-round demonstrations, federal agencies make awards of 2nd-round demonstrations. Publish reports on 20 Rural Demonstration Projects. Hold conferences.

Year 3 - Hold symposia to identify common elements of successful demonstrations, evaluate success of demonstrations, assess unmet needs and develop recommendations for continuation. Hold workshops in conjunction with meetings of organizations of state and local officials, human services and economic development organizations, issue report and recommendations.

Estimated Cost. Federal funds for the Rural Demonstration Projects will come from existing budgets. Funds for administration of the program, not including the information and dissemination activities of the Center for Agriculture and Rural Development, should be absorbed by each agency. Information, technical assistance, evaluation and dissemination are estimated to cost approximately $1 million per year for contracts which should be funded through a new line-item appropriation to the Office of Small Community and Rural Development, which should administer the contracts and monitor performance.

Table E
STATE RURAL DEVELOPMENT PROGRAMS, By State: 1988

	I. Agriculture-Related Development	II. Transition Tools	III. Rural Business Assistance	IV. Rural Community Assistance
Alabama	A,C,F,G	H,J,K	M,N,O,P,R,T,U,V,W	Z,BB,CC,DD,EE,FF,GG
Alaska	A,C,D,E,F,G	J	M,N,O,R,S,T,U,W,X	Z,AA,CC,DD,EE,GG,II
Arizona	A		M,N,O,P,Q,R,S,T,U,X,Y	Z,AA,BB,CC,DD,EE,FF, GG,HH,II
Arkansas	A,B,F		P,T,U,V	CC,EE,GG
California	B,F	H,J	M,N,O,P,Q,S,T,R,U,V,W,X	Z,AA,BB,CC,EE,GG
Colorado	D		N,O,P,Q,T,U,V,X	
Connecticut	D,F			AA,DD,HH
Delaware			MO,P,Q,T,U,V,W,X	AA,BB,CC,DD,GG
Florida	A,B,E,F	I,K	M	Z,BB,
Georgia	A,B,F,D	H,I,K	M,N,O,Q,S,TV	Z,BB,CC,DD,EE,FF,HH
Hawaii	A,B,C,D,E,F	H,I,J	P,V	Z,CC,GG,HH
Idaho	A,E,F,G	H,J,K	M,N,O,T,U,X	AA,CC,HH
Illinois	A,B,C,D,E,F	H,J,K	M,N,O,P,Q,R,S,T,U,V,W,X	Z,AA,CC,DD,EE,FF,HH, GG
Indiana	A,B,C,D,F	J,K	N,P,T,U,W	CC
Iowa	A,B,C,D,E,F,	H,I,J,K	M,N,O,P,Q,R,S,T,U,V	Z,AA,CC,DD,EE,FF,GG
Kansas		H,J,K	M,P,R,T,U,V,W	CC,GG
Kentucky	A,B,C,E	J,K	M,N,O,P,Q,S,T,U,V,W,X	Z,AA,BB,CC,EE,GG
Louisiana	A,B,C,D,E,F	H,J	M,N,P,Q,S,T,U,V,W,X	Z,AA,BB,CC,EE,GG
Maine	A,B,C,D,E,F	H,I,J,K	O,Q,R,S,T,U,V	EE,GG,HH
Maryland			T,U,V	Z,CC,EE,GG
Massachusetts			M,P,Q,T,U,V	AA,BB,CC,EE,HH
Michigan	A,B,C,D,E,F,	I,J,K	M,N,O,P,Q,R,S,T,U,V,W,X	Z,AA,BB,CC,EE,GG,HH
Minnesota	C,D,E,F	H,I,J	M,N,O,P,Q,R,T,U,V,W,Y	AA,CC,EE,GG,HH
Mississippi	A,E,F	H	P,Q,T,U,V,X,W	AA,CC,DD,GG,HH
Missouri	A,B,C,D,E,F	J,K,	M,P,Q,T,U,V,W	AA,CC,EE,
Montana	B,C,D,E,F,G	H,J,K,L	M,N,P,T,U,W	AA,BB,CC,DD,FF,GG,HH
Nebraska	A,B,C,D,E	J,K	M,N,O,P,Q,S,T,U,V,W,X	CC,DD,GG,HH
Nevada		H	M,N,O,P,R,S,T,U,V,W	Z,BB,CC,DD,EE,GG
New Hampshire	F		M,U,Q	DD,EE,GG,HH
New Jersey	A,B,C,F	I,J,K	P,Q,T,U,V,W	CC,GG,HH
New Mexico	A,B,D,E,F		M,N,P,R,T,U,W,X	Z,AA,CC,EE,GG
New York	D,F	H,I,J,K	M,N,O,P,T,U,V,W,X,Y	AA,BB,CC,DD,GG,HH
North Carolina	D	H	M,P,T,U,X	AA,CC,DD,HH
North Dakota	A,B,C,D,E,F	H,I,J,K	M,N,P,T,U,V,Y	Z,CC,DD,EE,GG,HH
Ohio	C,F	J	P,R,T,W	CC,DD,GG
Oklahoma	F	K	S,U,V,W	Z,AA,CC,DD,EE,GG
Oregon	A,B,D,E,F	H	M,N,P,R,Q,T,U,V,W	Z,CC,EE,GG
Pennsylvania	A	J	M,N,O,P,R,T,U,V,W,X	AA,CC,DD,EE,GG
Rhode Island	F		R,T,U	CC,DD,GG
South Carolina	C,F	H,J	M,N,P,U	EE,GG
South Dakota	C,F	H,J,K	O,Q,U,X	
Tennessee	A,B,C,D,E,F	H,I,J,K	N,P,R,T,U,V	Z,CC,DD,EE,GG
Texas	E	H,J	M,P,T,U	AA,CC
Utah	D,E,F	H,J,K	M,Q,S,T,U,X,Y	Z,AA,BB,EE,GG
Vermont	A,D,F	H	M,N,P,Q,T,U,V,X	AA,BB,CC,GG,HH
Virginia	A,B,C,D,E,F	H,J,K	M,N,P,Q,T,U,V,X	AA,DD,EE,GG,HH
Washington	A,B,D,E,F	J	N,O,P,T,U,W	Z,AA,CC,DD,EE,GG,HH
West Virginia	A,B,E,F	H	M,O,P,S,T,U,W	BB,CC,DD,GG,HH
Wisconsin	A,B,D,E,F	H,I,J,K	N,O,P,Q,R,T,U,V,W,X	Z,DD,EE,GG
Wyoming	A,B,C,D,E,F	H,J,K	M,N,O,P,Q,S,T,U,W	Z,GG

Source: Information derived from survey of the states conducted by the Center for Agriculture and Rural Development, The Council of State Governments (1988).

I. Agriculture-Related Development
- A. Agriculture Export Development
- B. Attracting Value-added Business
- C. Beginning Farmer Programs
- D. Biotechnology & Technology Transfer
- E. Crop Diversification
- F. Marketing Ag/Rural Products
- G. Other

II. Transition Tools
- H. Ag & Rural Development Commissions, Agencies, Etc.
- I. Assessing Competitive Advantages
- J. Farmer & Agribusiness Financial Programs
- K. Farmer Retraining and Counseling
- L. Other

III. Rural Business Assistance
- M. Economic Development, Comprehensive
- N. Entrepreneurship, Business Incubators, Etc.
- O. Job Creation/Training
- P. Location of New Business/Industry
- Q. Marketing and Export
- R. Plant/Military Base Closing
- S. Procurement Assistance
- T. Retention and Expansion of Existing Business
- U. Small Business Assistance
- V. Rural Enterprise Zones
- W. Tax Incentives for Private Investments
- X. Technology Transfer
- Y. Other

IV. Rural Community Assistance
- Z. Culture and Arts
- AA. Financial
- BB. Housing
- CC. Infrastructure
- DD. Land Use
- EE. Parks and Recreation
- FF. Quality of Life
- GG. Tourism
- HH. Other
- II. Day Care Services

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UPCOMING:

Proceedings from 2nd Annual States' Agenda for Rural Economic Development Conference in Raleigh, North Carolina, October, 1988. (Spring 1989)

Building New Foundations: State Assistance For Local Infrastructure (Spring, 1989)

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Ref.#	
	"The Book of the States" Chpt. 8 -Public Works p.414-423; Agriculture and Rural Development p.424-435. Vol. 27, 1988-1989 Edition.
V-11	"Revitalizing Rural America", The Journal of State Government, Volume 61, Number 1. January/February 1988.
Ch-5	"Innovations is Public Works Assistance," August 1987. (Chart)
Ch-4	"State Rural Development Programs": Eastern, Midwestern, Southern, Western & National. May 1987. (Chart)
B-11	"Contracting for the Operation of Prisons & Jails.": National Institute of Justice, US. Dept. of Justice (Research in Brief). June 1987.
B-12	"Defense Procurement and Economic Development--An Annotated Bibliography." June 30, 1985. Supplement March 1986.
B-13	"Five Case Studies--Defense Procurement and Economic Development." August 1985.

SPECIAL REGIONAL REPORTS

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	"Report of the Midwestern Governors' Conference Task Force on Rural Economic Development", Galena, IL, September, 1987.
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June, 1989

CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT

Background

In 1985, state policymakers were face-to-face with the worst farm crisis since the Great Depression. While most national organizations headed to Washington, D.C. to debate the new Farm Bill, a small group of state executive and legislative leaders gathered to discuss possible state government action. Frustrated with the failure of federal programs, these state leaders advocated new state policies to create jobs in rural communities and help agriculture-related industry. Without this, they knew the farmers, farm families and rural communities could not survive.

Legislators, Governors, their staffs and other top elected and appointed state officials turned to The Council of State Governments for help. States asked the Council to find state policies and programs they could put into place to revitalize their rural economies and put farmers back to work . . . to create new markets, new products and new strategies for rural America.

The Center was formed by The Council of State Governments in 1985 to conduct research, provide information and referrral services to hold forums and to produce publications. It's primary mission is to advise state policymakers about ways they can create new jobs in rural communities and help businesses in agriculture-related industries to survive and grow.

The Center works in three main areas:

Crisis Response

- **Policy Forums on Personal Stress Problems of Farmers and Rural Americans.** In 1986, in cooperation with the National Institute of Mental Health, we sponsored two forums to guide state policy responses to rural suicide and depression problems. Out of these forums came recommendations for new federal legislation and programs enacted in 1987.
- **Background Papers on the Farm Crisis.** *The Family Owned Farm: A Vanishing Breed?* (April 1985), *The Farm Credit Crisis: Shaking the Roots of Rural America* (September 1985).

Policy Guidance

- **Technical Assistance Bulletins** include Business Retention and Expansion, Agriculture Diversification, Rural Lands and Outdoor Recreation, Agriculture and Rural Development Commissions, Agricultural Marketing and Attracting Value-Added Business.
- **Special Interest, In-Depth Studies** on Rural Public Transportation, Infrastructure, Procurement Assistance and Prison Privatization.
- **Background Papers** on a variety of timely topics including biotechnology, displaced farmer training, rural day care, and satellite land-use planning technology.
- **Information Clearinghouse** answers over 400 questions each year on agriculture, economic development, community development and other state legislation and programs. Includes up-do-date names and addresses of key state policymakers, descriptions of over 1,000 state agriculture and rural development programs, referral to experts inside and outside of state government.

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- **States Agenda for Rural Economic Development** (Yearly Summit) features the latest innovations in rural policy, research and programs. An idea-session for state leaders, it is supported by land-grant universities, federal agencies private firms and foundations. The 1989 States Agenda Summit is in LaCrosse, Wisconsin (late September). Proceedings are published.
- **Complete Reference Materials**, a unique collection of documents and studies produced by individual states, unpublished studies and papers by top researchers, hard-to-find statistics on individual state conditions and a computerized data-base of state programs. These are used to prepare books like *Working Together* (recently published by the U.S. Small Business Administration), chapters in books (such as *The Book of The States* published by CSG) and magazine articles (such as *Rural Development Perspectives* article in February 1988).
- **Symposia** where academics and politicians learn from each other about the real problems and practical solutions have included such topics as public works, pesticides and agricultural chemicals, diversification of agriculture, stress management, international agricultural trade, rural transportation and more.
- **Leadership Recognition** of outstanding contributions to agriculture, international leadership, agricultural marketing, recruiting young people into agriculture, and practical research.

The Center for Agriculture and Rural Development has now been joined in state agriculture and rural development policy research by a number of other more specialized organizations: the National Governors' Association, the Council of State Community Affairs Agencies, Council of State Planning Agencies, the National Conference of State Legislatures and others. As the umbrella organization for state policy research, The Council of State Governments makes every effort to stay in touch with these other organizations, to encourage them in their work, and to provide assistance where possible.

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Statement* of Ayse Somersan, Dean
# of Cooperative Extension Service
University of Wisconsin-Extension

Mr. Chairman and members of the Committee:

I appreciate your invitation and the opportunity to appear before you today to discuss important issues relating to rural revitalization. I am representing the National Association of State Universities and Land Grant Colleges, especially the extension components of the organization. The Association is extremely supportive of Cooperative Extension System's educational initiative directed at rural revitalization. The Extension Service is part of the United States Department of Agriculture team. The support of the agency for educational assistance targeted at rural development is evident in the inclusion of rural revitalization education as the lead item in the five-point Rural Regeneration agenda of the U.S Department of Agriculture.

I appreciate the leadership role you are taking to improve the condition of our rural economy. Restoring vitality to our rural areas will require action at all levels of governments, as well as within the private sector.

Since November, 1982, we have reduced unemployment, increased investment, cut costs and increased competitiveness, especially in old line manufacturing industries. Over the course of this expansion, which is the second longest in post-war history, we've had pockets of depression around the country. Most rural communities have not seen their fortunes improve as a result of the rising economic tide. The rays of sunshine that focused on the east and west coasts and on the financial and industrial centers of the South and the Midwest have proved to be narrow beams of light. A January, 1988, article in the Wall Street Journal, reporting on the disparities between rural and urban communities in the South was titled, "The Split-Level South". You can discuss split level anywhere, USA, with regard to rural-urban differences.

Rural areas made significant gains in the 1970s, but they took a turn for the worse in the 1980s. Rural communities have been hit hard by structural changes in the world economy. Population growth has slowed. Employment growth is at a rate less than one third that of urban areas. The unemployment rate is higher in rural areas as compared with their urban neighbors -- a reversal of conditions during the 1970s. Educational attainment is low. Housing is substandard. Fiscal capacity of local governments is low. The poverty rate is higher in nonmetropolitan areas as compared to metropolitan regions. The fact is this: The gap between the standard of living of rural and urban residents has grown during the recovery and expansion phases of the current business cycle.

Diversity of Rural Areas and Causes of Economic Stress

Rural America is diverse. Its communities show great variations in sources of employment and income. Farming, forestry and mining remain the heart of many rural community economies, but they are declining in relative importance.

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*Presented to the Subcommittee on Conservation, Credit and Rural Development of the Committee on Agriculture, U.S. House of Representatives, June 20, 1989.

Today, employment in manufacturing, construction, services, as well as income from transfer payments, interest, dividends and rent provide the major sources of personal income in many nonmetropolitan counties. A 1987 classification by economic dependency of the 2,441 nonmetropolitan counties in the U.S. identified 602 counties as farm-dependent, 618 as manufacturing-dependent and 176 as mining-dependent. Another 239 were classified as dependent on government activities and 222 as dependent on retirement income. The rest were classified as "mixed" (128 counties), trade (370 counties), or other (86 counties).

While the fine points of the classification can be argued, these figures underscore the diversity of rural America and the importance of income from all sources in maintaining the standard of living of rural residents.

In the economic restructuring of the early 1980's, rural America experienced severe losses in agriculture, mining and manufacturing. The decline in rural manufacturing, which is especially sensitive to foreign competition, caused great hardship in the nonmetropolitan counties of the South. The financial plight of farmers produced the greatest stress in the rural areas of the North Central region, as well as in the Southeast, Northwest and the Mississippi Delta. The coal-producing counties of Appalachia and the Midwest and the oil-dependent states of Texas, Oklahoma, Louisiana and the Northern Plains States are still in a recession. Nonmetropolitan counties that depend on tourism, retirement income and specialized government spending exhibited much greater stability during the turbulent 1980s.

Between the 1982 and 1989, manufacturing production surpassed its pre-recession levels but the output is produced with less labor than before. Dependence on the goods-producing sector hurt rural employment during the recovery and expansion, and the relationship between the service sector and the goods sector in rural areas has widened the disparity between rural and urban employment growth. In fact, a major reason for the slower growth in service jobs in rural areas is the link between service and goods employment. Rural areas must develop service industries that are not closely tied to goods-producing industries if they are to achieve employment growth rates approaching those in urban areas. If they do not make this change, rural areas will be left behind as the nation shifts to a more service-based economy.

Another explanation for the decline in the relative economic status of rural areas during the present expansion can be tied to federal spending. A study by Norman Reid and Elliott Dubin reported that federal spending in 1985 was 22 percent higher in metropolitan counties than in nonmetropolitan counties. Furthermore, the spending mix was different. Only a third of government spending in nonmetropolitan counties came from programs other than income transfers such as social security and medicare. In metropolitan areas, non-transfer federal spending was 50 percent -- a difference that may mean that urban areas were receiving more economic development stimulation.

Deregulation of banking, transportation and the communications system also has worked to the disadvantage of rural areas. Low profit, low volume rural markets are left unserved or are served at lower levels. Without adequate transportation and communications links to the rest of the world, rural communities become less competitive; the cost of doing business increases, and some doors to economic opportunity close altogether.

Finally, Glen Pulver and others have written on the importance of location to the economic well-being of rural communities. In general, rural communities close to urban centers are more likely to be doing well because they attract service-producing firms, high-technology manufacturers and retirees. The job and income growth potential of communities in more remote regions has been limited, and the disparity between living standards of these areas and urban regions has been more pronounced.

Comprehensive Rural Development Policy

Rural and agriculture are not synonymous. A meaningful rural development policy recognizes that the rural economic stress is not simply a problem of low farm prices. Farm policy alone will not improve the economic well being of rural areas. A comprehensive rural development policy must include economic development and rural transition policies, as well as farm policy.

Rural economic development policy must include new strategies for expanding alternate sources of employment and income. We must find ways to stimulate the growth of private sector employment in service industries and to assure an adequate fiscal base to support community institutions. We must improve the efficiency of existing private and public institutions and protect the environment from long-term destructive activities. Finally, we must make sure that public decisions concerning macroeconomic policy, deregulation and privatization do not reduce the competitiveness of rural areas.

Our rural transition policy must ease the way for people who must move from their current employment to more productive circumstances. We need to provide temporary income assistance programs, job counseling and training, human support services and programs to help individuals see the need for transition.

Finally, farm policy remains extremely important in any comprehensive effort aimed at improving the economic well-being of rural areas. As summarized in the Extension Committee on Organization and Policy report titled Revitalizing Rural America, the challenge to farm policy, given the overall global economic situation, is to continue the major commitment to efficiency generated by improved technology, to adapt systems of integrated management, to develop and use new marketing alternatives and to promote the use of new products in world markets.

Economic Development Policy of Rural Areas

The economic future of rural communities remains too closely tied to the success of goods-producing industries. These are the declining sectors in terms of employment growth. Rural revitalization demands diversification and a much greater reliance on new employment and income from service-producing industries and high technology-based manufacturing industries. Glen Pulver identifies the most critical factors in encouraging the growth of service industries and high technology manufacturing sectors as access to knowledge, access to capital, access to telecommunications, access to transportation and access to a high quality living environment. Communities that do not provide this access will continue to decline.

Economic development in rural communities requires four essential elements:

- Strategies that target rural education,
- Capital to support new firms that develop and exploit new technology and to encourage entrepreneurship,
- Transportation and communications infrastructure to ensure the linkage of rural communities to the global economy and
- Quality healthcare and good housing to ensure a stable population base.

Improving Economic Development Policy Literacy

Perhaps the single most important initiative that could be undertaken to improve the economic well-being of America, especially in its rural areas, is the expansion of education and technical assistance in community economic development policy provided to local government officials, business people and other local leaders. Such assistance helps people understand critical changes in the global economy, analyze their specific economic problems and opportunities and build comprehensive policies that offer real hope of meeting their goals. Recipients of this education would include business association representatives, industrial developers, individual business persons, bankers, educators, local government officials, planners, prospective entrepreneurs and others interested in economic development.

The growing importance of economic development policy education at the state and national levels is evident, but the need is most acute at the community level. Every community represents a unique combination of resources, opportunities and goals. Local leaders must choose some combination of strategies, including efforts aimed at increasing the efficiency of existing businesses, attracting new basic employers, helping new business start-ups, capturing existing dollars, or acquiring resources from governments of broader than local scope.

Since resources, opportunities and goals vary among communities, policies and strategies must be specific to the community. Choices have been complicated by the jungle of economic development programs created by state and national governments. Policy makers must be aware of the full array of external assistance -- both public and private -- and how to tap programs that may be most useful. Community leaders must fashion effective policy out of this complex maze of internal resources, opportunities and goals and external assistance, prospective choices and changing economic conditions.

In small towns and big cities alike, very specialized knowledge is required to develop effective public policy. Policymakers must understand employment trends, market possibilities, structural changes in the economy, business climates, sources of financing, effects of industrial location, effects on groups such as minorities and women, industrial targeting and the environmental consequences of economic change. They need to understand the means of financing government, the mechanisms for providing services, the role of volunteers and the division of responsibilities among local, state, and national governments. They need to know about personal leadership, organization skills and community development processes.

In rural areas, local government officials, community organizations and private business people have less access to economic development policy education for several reasons:

- One, because of their smaller populations and more specialized industrial base, rural areas have a narrower knowledge base among local people. For example, bankers have lending experiences with fewer types of businesses, and elected officials bring less diverse knowledge to public decision making.
- Two, rural areas are farther from specialized knowledge sources. Leaders of government, nonprofit organizations and private businesses cannot easily arrange frequent meetings with those who possess the information they need.
- Rural areas have a smaller economic base with which to finance the acquisition of needed informational resources.

Essential Elements of Economic Development Policy Education

Continuing access by local leaders, both public and private, to a wide base of economic development knowledge is vital. Since providing each small community with the specialized staff resources enjoyed by large cities is impractical and inefficient, other mechanisms must be found to provide the necessary access to critical knowledge. Policies in towns and villages are set by volunteers representing the interests of the people of their community. Universities can play a significant role in providing the needed knowledge through a well organized, well distributed outreach program directed at community leaders.

To be effective, educational and technical assistance programs must meet several criteria:

- Because no two communities are alike, the knowledge provided must, at least in part, be tailored to the specific concerns of each community.
- The knowledge must be derived from a trusted source in which community leaders have absolute confidence. A message will be rejected if it is incomprehensible or impractical or if it comes from a source that is frequently unreliable or has political or economic motivations that are suspect. Colleges and universities normally are seen as relatively independent, unbiased and trustworthy sources of knowledge. Individuals who the people of the community know and trust are often needed to bridge the gap between the community and more distant knowledge bases.
- The information must be readily available. It must be delivered in or close to the community, and it must be available when it is needed.

- Programs must be flexible. Informal education (workshops, public meetings, small-group discussion sessions, one-on-one consultations, brief publications) are most likely to accomplish the desired educational goals.
- Educational assistance must be continuing since economic development is not a one-time event.
- Because of the small tax base in most rural communities, economic development policy education requires financial support from broader units of government. A combination of community, state and federal funding may guarantee that the interest of the widest public is served. It may inhibit localities and states from establishing policies which beggar their neighbors through industrial raiding, tax write-offs or other zero-sum activities.

Educational programs containing most of these elements have the highest probability of success.

Cooperative Extension System

One organization that has the potential to meet this educational challenge is the Cooperative Extension System.

Created by Congress in 1914 through the Smith-Lever Act, the Cooperative Extension System has its origin in the social and economic needs of rural America and the political demands of a largely agrarian society for an informed, vigorous people.

For over seven decades, the Cooperative Extension System has maintained a strong, long-standing commitment to rural America and its people. With educational programs based on the research and knowledge provided by the land grant colleges and universities and the USDA, Extension is unique among educational institutions. As part of a nationwide partnership that functions at the local, county, state and national levels, it has proven it can make a difference.

Extension helps people apply research findings to everyday problems. Since Extension involves citizens in identifying needs and establishing priorities, Cooperative Extension System programs are responsive to local issues and local interests.

Seventy years ago, a largely agrarian America stood on the brink of major technological changes in the farming industry -- changes that would alter the nature of work in this country and would provide all Americans with significant economic, personal and social benefits.

Today, rural America is on the verge of a similar revolution. This time, however, the driving economic and social forces have global causes and implications. Now, as then, the Cooperative Extension System is playing a vital role.

The Cooperative Extension System has identified rural revitalization as one of its educational initiatives through its strategic planning process. The six critical issues within the Rural Revitalization Initiative and the educational goals are as follows:

- The economic competitiveness of rural areas is diminishing.
  GOAL: Through management and marketing education, maintain and enhance the profitability of rural businesses, including agriculture and natural resource based enterprises.

- Rural communities are dependent on too few sources of income.
  GOAL: Find alternative uses for rural resources through economic development education that: helps to diversify the rural economic base, increases value-added locally, and develops new sources of employment and income.

- Service demands on local governments and community organizations are growing while attendant resources are diminishing.
  GOAL: Strengthen the public decision-making process through education programs that help local officials: improve the cost-effectiveness of local governments and find new ways to develop and deliver community facilities and services.

- Rural families and communities are having difficulty adjusting to the impact of political, economic and social change on rural life.
  GOAL: Develop educational programs to: assist rural communities, families and individuals in coping with transition strengthen family support networks, and help local decision makers devise new institutional arrangements to meet family and community needs.

- Rural revitalization is dependent on skilled community leadership.
  GOAL: Through education programs aimed at all age groups, expand the pool of quality leadership and improve the educational support for community leaders to help them cope with local needs.

- The quality of the natural resource base is critical to revitalizing rural communities.
  GOAL: Develop educational programs to: foster an understanding of the impact of natural resources on the quality of both urban and rural life and facilitate the collaboration of affected parties to assess and develop public policy.

Because of the support provided by the American people, Extension has been committing personnel and resources to agricultural progress and profitability since 1914. If Extension is to have as large an impact on revitalizing rural America, it will require a similar dedication of personnel and resources.

I urge you to consider a meaningful level of new funding to build a strong rural development education program in the Cooperative Extension System. The commitment needs to be one which accomplishes the following results:

- Funding to support a National Institute for Rural Community Economic Development. This institute would assemble and disseminate the knowledge of action strategies that offer realistic chances for community economic revitalization to state and local policy leaders. Really useful knowledge is scattered in small bits among theorists and pragmatists, academics and practitioners, bureaucrats and private developers throughout the country. Combined and distributed, this information could be of great practical use in local planning and action.

- Increased funding for the Rural Informational Center of the USDA to develop an expanded clearing house function;

- Funding to states to build or expand capacity within university departments to provide core applied research and extension programming to support an ongoing state-specific community economic development program;

- Funding to counties to ensure educator-catalyst support to community and county leaders in rational economic development policy action. Senate Bill 1036 specifies such a rural economic and business development program to enable states or counties to employ Cooperative Extension Service specialists for this purpose.

The land-grant university system and the Cooperative Extension Services, with their heritage of helping rural people use knowledge to improve their lives, have the structure, the expertise and the technical capabilities to support a comprehensive rural development effort. The Cooperative Extension System is committed to partnerships -- among the three levels of government, between campus and county faculty and staff, between university people and volunteers and between public and private organizations. The partnerships and alliances which need to be formed in support of rural economic revitalization exist within the natural operating philosophy of the Extension System. What is needed is not parallel, duplicative and expensive new delivery structures, but financial support for a proven national network which reaches into the farthest corners of this nation. The Extension System can help rural leaders put knowledge to work in revitalizing rural America, community by community.

TESTIMONY
OF
GARY GOLDBERG

MEMBER, NEBRASKA ETHANOL AUTHORITY
AND DEVELOPMENT BOARD AND
VICE PRESIDENT, CLEAN FUELS
DEVELOPMENT COALITION

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE. I'M GARY GOLDBERG. I'M HERE TO SPEAK AS A BOARD MEMBER OF THE NEBRASKA ETHANOL AUTHORITY AND DEVELOPMENT BOARD, AS THE VICE-PRESIDENT OF THE CLEAN FUELS DEVELOPMENT COALITION, AND MOST IMPORTANTLY AS A NEBRASKA CORN FARMER.

MUCH HAS BEEN SAID ABOUT ALLOWING FARMERS SOME FLEXIBILITY IN THE NEW FARM BILL. HOW TO ACHIEVE FLEXIBILITY IS CERTAINLY OPEN FOR DEBATE. BUT, I CONTEND THAT WHAT FARMERS AND RURAL AMERICA NEEDS MOST IS NOT SO MUCH FLEXIBILITY BUT STABILITY. AND THAT IS WHAT THE NEBRASKA ETHANOL AUTHORITY IS TRYING TO DO.

THE NEBRASKA ETHANOL AUTHORITY AND DEVELOPMENT BOARD WAS ESTABLISHED AS A STATE AGENCY IN 1986. THE PRIMARY PURPOSE OF THE ETHANOL AUTHORITY IS TO ASSIST THE PRIVATE SECTOR IN THE ACQUISITION, CONSTRUCTION OR EXPANSION OF GRAIN PROCESSING FACILITIES IN NEBRASKA. SPECIAL EMPHASIS IS FOCUSED ON THOSE PROJECTS WHICH WOULD INCLUDE ETHANOL PRODUCTION. INVESTMENT AND OPERATING FUNDS FOR THE PROGRAM WERE GENERATED BY AN 18-MONTH CHECK-OFF ASSESSED ON GRAIN SOLD IN NEBRASKA. THE BOARD PRESENTLY HAS A $17 MILLION FUND WITH WHICH TO MAKE EQUITY INVESTMENTS IN QUALIFIED PROJECTS PROPOSED BY PRIVATE COMPANIES.

THIS PROGRAM IS REPRESENTATIVE OF THE RENEWED EMPHASIS ON RURAL ECONOMIC DEVELOPMENT. THE PROGRAM IS FOCUSED ON POLICY GOALS WHICH ARE ESSENTIAL TO RURAL REVITALIZATION EFFORTS. GRAIN PROCESSING INDUSTRIES ARE LIKELY TO LOCATE IN GRAIN PRODUCING

STATES LIKE NEBRASKA. THESE INDUSTRIES STIMULATE DEMAND FOR A GRAIN AND ADD VALUE TO GRAIN-DERIVED PRODUCTS. THE PLANTS MAY BE LOCATED IN OR NEAR SMALLER RURAL COMMUNITIES. SEVERAL BENEFITS ACCRUE TO THE RURAL ECONOMY WHEN SUCH INDUSTRY RECRUITMENT EFFORTS ARE SUCCESSFUL.

FIRST, DEMAND FOR GRAIN INCREASES. THOSE OF US WHO PRODUCE GRAIN CAN REASONABLY EXPECT TO SEE UPWARD MOVEMENT IN GRAIN PRICES DUE TO INCREASED LOCAL DEMAND.

SECOND, WE SEE NEW JOB OPPORTUNITIES WHICH HELP RETAIN OUR YOUNG PEOPLE IN AREAS WHERE MANY PREFER TO LIVE. WITHOUT THESE EMPLOYMENT OPPORTUNITIES, WE SEE YOUNG PEOPLE MIGRATE TO LESS SATISFYING JOBS IN URBAN AREAS. WE LOSE A POOL OF TALENT AND VITALITY CRUCIAL TO RURAL REVITALIZATION EFFORTS.

THIRD, NEW INDUSTRY BROADENS A TAX BASE WHICH CONTINUES TO DEPEND ON AGRICULTURE. AN EXPANDED TAX BASE WILL LESSEN THE BURDEN ON RURAL COMMUNITIES AND RURAL STATES.

AND LAST, THE SPIN-OFF ECONOMIC BENEFITS ASSOCIATED WITH NEW INDUSTRIES ARE PARTICULARLY EVIDENT IN RURAL AREAS. DURING THE CONSTRUCTION AND THROUGHOUT THE OPERATIONAL LIFE OF A PLANT, MANY AUXILIARY JOBS ARE CREATED IN RESPONSE TO THE NEEDS OF THE NEW INDUSTRY.

IT HAS BEEN SHOWN HISTORICALLY, THAT THE BEST RURAL DEVELOPMENT TOOL AVAILABLE IS A VIABLE AND EXPANDING AGRICULTURAL SECTOR.

By expanding ethanol production, commodity prices rise, which in turn provides more dollars being spent in rural areas. When farmers benefit, so do rural banks, rural supermarkets, rural doctors and lawyers, and all of rural Main Street.

We are proud that Nebraska has continued to take the lead nationally in ethanol development. With Congressional help in the form of extending the 60 cent federal ethanol exemption to the year 2000, with your encouragement to grant the 60 cent federal blenders tax credit to ethyl tertiary-butyl ether or ETBE, and with a Clean Air Act extension that encourages the use of all oxygenated fuels, Congress can go a long way in providing much-needed rural economic assistance.

We would encourage you to let the Nebraska program be used as a national example of how state government can help stimulate private sector investment in rural America. If this same type of program could be developed on a national level, rural areas of our country would immediately benefit from new economic opportunities.

In conclusion Mr. Chairman, the costs of doing something will, in the long run, be far less expensive than the costs of doing nothing.

Mr. Chairman, I thank you and I would certainly be willing to answer any questions at this time.

RURAL ECONOMIC DEVELOPMENT

THURSDAY, JUNE 22, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Penny, Stallings, Harris, Espy, Gunderson, and Grandy.

Also present: Representative Bruce.

Staff present: Fred J. Clark, associate counsel; Francie Monaghan, clerk; Bill Cherry, Joe Dugan, and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The subcommittee will come to order.

The Subcommittee on Conservation, Credit, and Rural Development continues its hearings on rural development, and we would like to welcome our witnesses today. By the end of today's hearing, we will have heard from 36 different groups and individuals. There has been a variety of approaches as to how we should best proceed with the critical issues facing rural America. Some clear messages have come through thus far. We know that there is not one national policy that will address all the needs of our rural towns and communities. The needs of rural America differ from region to region, from State to State, and from county to county, and suggested solutions are varied and thought provoking.

So it is today that we ask our witnesses to challenge those of us who will be entrusted with the task of drafting legislation after our hearings are completed. We continue to seek advice and counsel from the organizations and individuals who have spent a lifetime in rural areas. They know the problems first-hand and have worked with the Federal, State, and local governments to bring relief to their hometowns. Because of their involvement in rural areas, these groups share a common goal with the subcommittee, and that is to provide an attractive environment to those men and women who want to remain in communities where they were born and raised, and I might also say those people from urban communities that would like to live in rural America.

Our witnesses today represent another cross-section of organizations concerned about the economic well-being of rural America.

Agriculture, communications, county government, health, and academic communities will be represented this morning. We look forward to their thoughts on how the subcommittee could best proceed with drafting rural development legislation.

Mr. Grandy.

Mr. **Grandy**. I have no opening statement, Mr. Chairman.

Mr. **English**. Thank you, Mr. Grandy. Any prepared statements received from other members will be placed in the record at this point.

[The prepared statement of Mr. Bruce follows:]

OPENING STATEMENT
RURAL DEVELOPMENT SUBCOMMITTEE HEARING
THURSDAY, JUNE 22, 1989

THE HONORABLE TERRY L. BRUCE

MR. CHAIRMAN, I WANT TO TAKE THIS OPPORTUNITY TODAY TO APPLAUD YOUR LEADERSHIP IN HOLDING THIS SERIES OF HEARINGS ON THE CURRENT STATE OF RURAL AMERICA. I APPRECIATE BEING THE AFFORDED THE PRIVILEDGE TO RETURN TO THE AGRICULTURE COMMITTEE ROOM AS A PREVIOUS COMMITTEE MEMBER AND AS THE REPRESENTATIVE OF AN EXTENSIVELY RURAL CONGRESSIONAL DISTRICT THAT IS CURRENTLY STILL EXPERIENCING THE STAGNATION THAT MUCH OF RURAL AMERICA IS FACING. AS ONE MY HIGHEST PRIORITIES, I HAVE FOLLOWED THESE RURAL DEVELOPMENT HEARINGS CLOSELY.

IT IS A PRIVILEDGE TO INTRODUCE OUR NEXT WITNESS, DR. DAVID CHICOINE. AMONG HIS ACHIEVEMENTS AND ACCOMPLISHMENTS IN THE AREA OF RURAL DEVELOPMENT, DR. CHICOINE PLAYED A PIVOTAL ROLE IN REAL ESTATE TAX REFORM FOR ILLINOIS FARMERS. HE HAS ALSO DEVELOPED A COMPREHENSIVE COMPUTER SIMULATION OF ECONOMIC DEVELOPMENT TRENDS BASED ON STATE SALES TAX FIGURES WHICH COULD BE USED BY MUNICIPALITIES TO EVALUATE VARIOUS ECONOMIC DEVELOPMENT IDEAS SUCH AS A PROFESSIONAL BUILDING FOR MEDICAL SERVICES OR A PHARMACY AMONG ITS MANY USES. AS THE AGRICULTURE ECONOMICS DEPARTMENT HEAD AT THE UNIVERSITY OF ILLINOIS COLLEGE OF AGRICULTURE DR. CHICOINE ALSO REPRESENTS AN UNPARALLED GROUP OF EDUCATIONAL PROFESSIONALS IN THE RURAL FINANCE ARENA.

I LOOK FORWARD TO DR. CHICOINE'S TESTIMONY AND THE DESCRIPTION OF THE NATIONAL CENTER FOR FARM AND RURAL BUSINESS FINANCE RESEARCH PROPOSAL AND AGAIN THANK THE SUBCOMMITTEE FOR ALLOWING ME TO PARTICIPATE IN THESE VITALLY IMPORTANT PROCEEDINGS.

Mr. ENGLISH. Our first witness today is Mr. John Kelly, who is a supervisor from Essex County, NY, and chairman of the Agriculture and Rural Affairs Policy Steering Committee of the National Association of Counties, testifying on behalf of the National Association of Counties here in Washington, DC.

Mr. Kelly, we want to welcome you here this morning.

STATEMENT OF JOHN KELLY, SUPERVISOR, ESSEX COUNTY, NY, AND CHAIRMAN, AGRICULTURE AND RURAL AFFAIRS POLICY STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES, ACCOMPANIED BY RALPH TABOR, LEGISLATIVE DIRECTOR

Mr. KELLY. Thank you, Mr. Chairman.

I am John Kelly, supervisor from Essex County, NY, and chairman of the agriculture and rural affairs policy steering committee of the National Association of Counties, better known as NACo. I'm accompanied by Ralph Tabor, legislative director of NACo, and the principal staff person for our steering committee.

Mr. Chairman, we are pleased that your subcommittee is holding these hearings on rural development, and we are hopeful that it will lead to action on a rural development bill this session. We are appreciative of the opportunity to present our views on rural development legislation.

It may or may not be surprising to some to have a New York county supervisor testify on the need for rural development. We are frequently thought of as a very urbanized State, but New York has over 3 million people living in rural areas. My own county, Essex County, has 36,000 people, and it is predominantly rural, with almost 90 percent living in towns or villages of less than 2,500 people. Essex County is located in the heart of the Adirondacks on Lake Champlain in upstate New York.

One of the major problems facing rural counties is the lack of funds to meet our infrastructure needs. These needs include highway and bridge improvements, sewer and water service, jail facilities, and solid waste disposal. Our local property tax base is insufficient to meet these needs with the loss of general revenue sharing. There is little Federal or State assistance to help us.

The problem is compounded by Federal legislation regulations imposing new requirements for drinking water and solid waste disposal. Additional State rules and regulations have added to the burden. Neither the Federal or State Governments are providing any funds to carry out these mandates.

The need for highway improvements and replacement of unsafe bridges is particularly acute. Schoolbuses and emergency vehicles can no longer cross some of our bridges.

Congress will begin consideration next year of legislation reauthorizing the Surface Transportation Act. We strongly urge this committee to become involved in this legislation and to work with the Public Works Committee in designing and funding programs to help meet rural county road and bridge needs. More funding particularly is needed for the Federal aid secondary system and the Off-System Bridge Program.

The Safe Drinking Water Act of 1986 is impacting local governments way beyond their fiscal means. Residents who now pay little for public water will be paying $300 to $400 a year for water. I urge you to consider some type of timely grant assistance for any rural water system with over 25 users so that compliance can be reasonably attained by 1992.

The most expensive problem facing rural America today is solid waste. The preferred and approved methods of handling solid waste are very, very expensive. Federal and State policy on solid waste will cost rural taxpayers billions of dollars to comply. In Essex County, our real property taxes will more than double once we have resolved the problem.

I urge this committee to not only seek assistance in resolving this problem, but to also seek ways to stabilize the rules and regulations so that any approved solution is not antiquated before it has finished its life expectancy.

We urge that water and sewer loan and grant programs administered by the Farmers Home Administration be expanded to help rural counties meet these expensive environmental requirements. We do not see any assistance coming from the Environmental Protection Agency. Frankly, we would prefer dealing with the Farmers Home Administration which already is established in most counties and is familiar with our problems.

One of the major problems facing rural counties all over the United States is maintaining access to health care. NACo is supporting the entire package of bills introduced by the House Rural Health Care Coalition. We want to commend you, Mr. Chairman, and other members of the subcommittee for your leadership and active involvement in the coalition. We strongly urge speedy action on these bills during this session and to include the entire legislative package in the budget reconciliation bill.

In conclusion, Mr. Chairman, you had asked us to address several questions in our testimony. One of the questions involved our participation and our recommendations for legislation. As county governments, we have the responsibility for building and maintaining roads, water and sewer systems, and solid-waste facilities. We also have the responsibility for health and social services. Economic development is directly related to how well we provide these services. Counties will be involved directly in almost any proposal on rural development legislation.

You have also asked us to address the question of how to pay for our recommended proposals. We are realistic about the Federal deficit and the competing pressures on Congress to fund new programs. Our proposals are modest and would not exceed the recommended $300 million contained in the first budget resolution for a rural development initiative.

Congress decided this year to make rural development a priority along with education, research, and development, child care, and space programs. We don't question where the funds will come from to pay for increased spending in education or child care or space programs. If we can afford these programs, we can also afford a modest initiative for our rural areas.

Mr. Chairman, we appreciate the opportunity to present our views. We want to work with you in developing a bill to help our depressed rural counties. We urge you to move as quickly as you can on reporting a bill and getting it to the floor during this session. We believe there is a strong momentum for rural development legislation, and we need to take advantage of this window of opportunity now.

Mr. Chairman, I would be happy to answer any questions you might have.

[The prepared statement of Mr. Kelly appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Kelly. That is a fine statement.

Let me say that we have a vote over at the caucus taking place right now. If you will excuse me, I will try to make this vote as quickly as possible and be right back, and then we will begin the questioning.

Thank you.

Mr. KELLY. Thank you, Mr. Chairman.

[Recess taken.]

Mr. ENGLISH. Mr. Kelly, I am sorry about the delay.

I think that, generally speaking, I agree with the thrust of your testimony; I have no disagreement with it. The one thing that troubles me is that I don't think $300 million is going to cure the ills of rural America, and, as many of our witnesses before us have pointed out, it is probably not going to have much of an impact as far as the problems of rural America are concerned.

We do have many programs that have gone in various directions scattered throughout the Federal Government that a substantial amount of assistance is available, but it seems that rural communities don't know about them, they don't have the expertise to apply for them, and the programs are aimed at problems that may have existed as much as 40 and 50 years ago.

I wonder if the greater challenge for us, as opposed to simply making the gesture toward rural America, isn't to take those resources that exist throughout the Federal Government and see if we can rechannel, redirect, and focus those resources on the problems that we are going to be facing in the 1990's as far as rural communities are concerned and make sure that those resources are going to be available, not excluded because of lack of information, expertise, or whatever it may be.

That is a much tougher job and will not be easy. Again, I think we have to decide at some point as to whether we are going to be satisfied with the gesture, run the flag up the flagpole and say, "Hey, we have passed a rural development bill; that's it for another 20 years," or are we going to seriously attack this problem and try to see if we can take the resources we have available to us and focus those resources to have some major impact on communities.

I have to say, I don't look forward to that kind of approach, because politically it has a great number of pitfalls. Many tough decisions are going to have to be made with people. But, by the same token, I don't think that rural America can afford for us to shirk that kind of responsibility.

I would like to get your observation and your thoughts with regard to that.

Mr. KELLY. I think you have made an excellent point, Mr. Chairman.

There have been in the past some programs, I think, that have been very effective for rural governments, and most of those have come through the Farmers Home Administration. Let me just relate one as it relates to sewers in rural areas. There were grant programs available for rural America, particularly used in my area of the State of New York. My town, for example, is very fortunate to receive the 75-percent funding to construct a sewer system. The State put up 12.5 percent, and the local picked up the other 12.5 percent, which we are still paying off and will be to the year 2020.

Those kinds of programs work. They worked then, and I think they can work in the future. We are not seeing that kind of money in the marketplace today.

EPA, when they pass these mandates and rules and regulations, are not attaching any dollars to those mandates and rules and regulations, and that is where we are in big trouble with the Safe Water Drinking Act, and that is where we are having a problem with these solid-waste issues. Somehow or other, there has got to be some redirection of some financing or some new financing to help us address those.

Our solid-waste issue in our county right now is going to cost us about $3.5 million. That doesn't take into consideration the trucking of solid waste to the landfill site, nor does it take into consideration the putting in place of a recycling program. So we are looking at, say, $18 a ton waste today that we are going to face $75 tons for tomorrow, and it is going to hurt us dramatically if we don't have some assistance to build these, what I would say are, environmentally approved solid-waste systems. We have just got to have some type of fiscal assistance from those people that have placed the onus of payment on the local taxpayer.

Mr. ENGLISH. I agree, and, of course, as I pointed out in my opening statement, we get many different opinions from various regions of the country that have different needs and different approaches.

Many parts of the country tell us they simply don't have any money to match with. So if you come with a program that has matching funds, that doesn't do them any good, and they will be excluded. They might as well just write them out of the bill. I don't think that this is the approach that we want to take.

I think what we need to look at is how we are going to approach communities in total, instead of a little piece here and a little piece there, there is a program over here to help you with your sewer system, and something over there for water, and maybe something in housing. It is a hodgepodge and mixture of different programs that have been assembled together in some kind of mosaic, and you can't really make any sense out of it. It is extremely complicated and extremely difficult.

The Members of Congress, their rural communities come to them and say, "Where can we get help?" and they can't tell them where to go. "Well, you can go to the Small Business Administration; you can go to the Department of Agriculture; you can go to HHS." I guess you go to every place except the Pentagon, and you might go there, too; I'm not sure. That seems to be where an awful lot is falling through the cracks. There is a great deal of wasted effort.

The question of leadership is one that has been raised here. Where do people go if they are in a small community? The mayor, the chamber of commerce, or even if you are head of the local economic development effort in that community, where do you go to find what works and what doesn't work? Who is there to give you that kind of information? There is no place in the Federal Government that I know of that you can get that kind of help. Maybe you can go to some of the State agencies, but the State agencies have got little information, and they really can't tell you what is working all the way up in Maine from Oklahoma or the State of Washington, or Alaska, or wherever it may.

That information needs to be assembled, brought together, so that everyone can learn from the experience. The amount of energy and money wasted by people following courses of action that may be totally unproductive simply because they don't know where to go. This seems to me an area that we should focus some attention on.

Mr. **Kelly**. Mr. Chairman, if I may, we have been working through the National Association of Counties at our different educational seminars which are held four times a year very closely on these very issues, and we have brought in speakers from the Federal Government, from the State governments, from local products of successful economic development use, to talk with our commissioners, with our legislators, our supervisors, and I think that dissertation and the sharing of success and also some failures in programs around this country has been most useful to our elected individuals and also some of our appointed officials in county government.

Maybe there is a lesson to be learned as we bring these people back into the fold that there are some goods programs out there that, with a private/public sector sharing of responsibilities, can be effective in developing economics in rural America, and I think there is a lot of ground work there.

There are some excellent regional planning boards that have some very qualified people that can apply for grants, that have the ability to know where moneys are, and the other technical expertise is there. Yet there are other sections of the country that don't have that technical expertise and probably need those types of approaches.

So, as you say, it is a widely-faceted sword that we have got to play with here, and I just hope that we are able to come up with something that is appropriate for the country as a whole, and particularly for rural America where our needs seem to be greater. Our population is dwindling to the urban areas, and we are still left with those same services that we have got to provide.

Mr. **English**. I would agree with that.

The thing about it is, I don't think a lecture once a year is what it's going to take to do this job. I think there has to be some kind of way in which we can pool together the experiences, the resources, and the knowledge, and bring it together so everyone knows, if you need help, this is where to go.

I had a local community of 500 people. They established a chamber of commerce. They want their community to grow. They had a garage sale for the whole town. Everybody pitched in to raise money to help to develop their community, and they appointed one person locally.

Where do those people go for help now? There is no question, they have the commitment, they have the dedication, they have put together the leadership. They need the knowledge, the information, and to know, "Where do we go for a helping hand?" If they get to looking around—everywhere—I mean a little here, a little there, and they are going to expend all their energy just running crazy, trying to figure out where it all is.

Mr. KELLY. Could I defer to Mr. Tabor for just 1 minute?

Mr. ENGLISH. Sure.

Mr. TABOR. Let me just add one thing, Mr. Chairman.

John is modest in not talking about his own State, but I think we have probably one of the best model State programs at pulling information together and making it accessible to anybody in the State of New York.

They have set up under the Office of Rural Affairs in Albany a network that is computerized into libraries all over the State and also into some of the schools, and they have put down all the State programs that are available in rural areas, and there are some 80 or so programs that are available in the State of New York for rural areas—health and infrastructure. Then they have also now plugged in with this National Agricultural Library, which is out here in Maryland. So if anyone in New York State wants to get information like you are talking about—small communities—they could go to a library, they could go to a school, they could plug this thing in and get all this information back not only on Federal programs but State programs.

It would seem to me that maybe New York has more resources than some of the other States that they were able to set this up, but in looking ahead at where some other States might be able to do that, maybe there needs to be a little bit of Federal incentive on this one. There may be a number of States that just couldn't afford to set something like that up. But it would be very useful if they could plug those in. The technology is there; it is no longer a question of that, it is just a question of doing it.

Mr. ENGLISH. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

Before I ask some questions regarding some of your testimony, Mr. Kelly, tell me a little about Essex County. You say it is a rural county, it is near Lake Champlain. What is the largest community?

Mr. KELLY. The largest community is North Elba, but it is better known as Lake Placid. We have hosted the winter olympics there on several occasions.

Mr. GRANDY. And how big is that community?

Mr. KELLY. That community is a community of 5,700 people.

Mr. GRANDY. That is the largest. Is that the county seat?

Mr. KELLY. No, that is not the county seat. Elizabethtown is the county seat, with a population of 1,400.

Mr. GRANDY. Is your average community in Essex County somewhere between 1,500 or less?

Mr. KELLY. We have 18 towns in our county, sir, and the largest town is Lake Placid/North Elba, which has 5,700, and we have 2 other towns that exceed 4,000; the balance are 2,500 and less, as small as 150.

Mr. GRANDY. It sounds very similar to my district, which is northwestern Iowa. As a matter of fact, if you have 3 towns with populations of 4,000 or more, that constitutes an urban county in my area.

My concern is, you say you do not depend on agriculture, other than a small amount of dairy. So what underpins your economy, other than tourism?

Mr. KELLY. Tourism is our economy. The wood products are a heavy part of our economy also. We have International Paper Co. which is a pulp and papermill, manufacturing, and those related jobs and positions that relate to the wood industry make up a good part of.

Mr. GRANDY. If you are like me, Lake Placid will survive and probably those communities of 4,000, but it is the ones of 1,400 or less that are on the cusp right now in terms of rural economic development. These, to me, also, if your county is like any of the ones that I represent, are the ones that are going to have the most difficult time accessing any kind of programs that we create because they are having so much difficulty accessing the ones now. The REA, for example, can't go into a community of 2,000 or less. So these are somewhat on the perimeter on rural development even as we talk. But, coincidentally, they are the communities that are first hit by this surfeit of new Federal regulations that are coming in dealing with landfill and asbestos compliance, because there is a school in most of those communities.

So let me ask you this. We all know it is a period of short dollars, we all know that the days of revenue sharing are gone. Rather than just talking about more money, more programs, more access to programs, shouldn't we be talking a little bit about regulatory relief or at least some regulatory waivers for communities who are going to be obliged by EPA to clean up their landfills or to clean up their schools but cannot possibly, even if they get some money from the State, meet the deadlines in the time period that has been handed down? That, to me, is the dark side of rural development, it is rural dismantlement, because if the school can't meet the standards and has to close, where do the teachers go? Where do the kids go? What do they do in the community when they want to take their children to school?

Mr. KELLY. Let me just give you an example, if I could, as it relates to the school issue and the asbestos issue. It also relates to the Safe Water Drinking Act.

Mr. GRANDY. Yes.

Mr. KELLY. We have a little school. Right now it has a population, K-12, of 290 students. We have a real asbestos problem. The anticipated cost for removal of that is about $1.5 million. We have found that we have a lead concentration in our water due to the old plumbing in a system that was built back in 1930. We are looking at about $500,000 to completely replumb the school system.

The problem we have run into, we are a "save harmless" school, which means, regardless of what we do to that physical plant, we can't receive an additional nickel from the State of New York in aid, so it has left to the taxpayers to try to do that very burdensome capital project. As a result, we have had several taskforces assembled in our community in the last 2 years to try and overcome this problem. We have not found an economic solution to date.

We really need to address a different way of handling the problem. Maybe encapsulation in a small system like that is the way to do business. There are probably other alternatives available. But there has to be, I think, some relief for those very easily targeted rural areas, such as ours, with very little political force, regardless of the political dimensions, to deal with this type of a problem.

Mr. GRANDY. What I am thinking about—and I borrow a much used phrase, and often it relates to tax relief, when you talk about enterprise zones, be they urban or rural enterprise zones. To me, regulatory relief should be part of a rural enterprise zone that the deadlines are extended, not beyond health standards but to a reasonable timeframe of compliance, because clearly the mandates that are being handed down—and I am sure you are dealing with section 89 the way all communities are—are coming so rapidly that the money you expend just to understand the rules is money you could spend to solve the problem.

A case in point. I had a school district write me and say, "The money that we are going to spend to figure out what section 89 means to this school is money we could spend on another teacher." That, to me, is happening all over the United States, and it is happening first in communities in counties the size of Essex County. That is what I think is so insidious about the parallel track of rural development and rural dismantlement.

Mr. KELLY. I agree with you 100 percent, sir.

Mr. GRANDY. Let me ask you this now. We are talking about $200 million, $300 million, and we are talking about how discoordinated the Federal system is in terms of accessing rural programs, and I think that, if my figures are right, you have something like 18 Federal agencies, something like 88 programs, I would assume that most rural communities might know about 3 or 4 of them and would know maybe how to get to 2 of them.

Does this argue for money that comes back to the States in the form of block grants so that a level of distribution is a little closer to the community, that rather than try and steer money into Farmers Home and steer money into REA and maybe steer money into a hybrid entity that would allow you to access grants or loans for infrastructure, steer money back to New York State and let Essex County and the communities therein develop their programs a little closer to home, because so many of these things are dependent upon the local economy and we can't possibly know what all of those vicissitudes are.

Mr. KELLY. I think if we looked at the distribution system and the way the competition works, to give you a classic example, our county is in that limbo area between the 25,000 population limit for small cities and the 50,000 for the large and urban areas. So we are competing in nowhere-land for grant programs.

The same situation is taking place with the towns. A town of my town's size, 1,600 people, is competing with the small cities of 25,000 for the same dollar pot. It would seem appropriate if we were to consider maybe a set-aside of a physical percentage—say 10 percent, 15 percent—of any grant program and its dollars to be geared toward those populated areas in rural America that need those moneys that just cannot compete with the cities that they are forced to compete with.

I mean we just cannot find those pockets of poverty that exist in a small city that has two or three blocks of poor houses. As urban as they are, they are in good shape. For me, in my town, to find, say, 10 units for housing rehabilitation, I might have to have a 10-mile radius to pick up that number of units that puts me in a competitive position. I will never do that. It is impossible for me to come up with that type of a situation, yet the need is there, but I can't compete.

Mr. **Grandy**. Have your smaller communities, the ones 1,500 and less, considered the cluster concept—in other words, pooling their resources to perhaps combine forces for a regional development director or a strategy at least, so that they might be able to tap into some of these resources that individually they couldn't access?

Mr. **Kelly**. We have, on the county level in our county, an organization that is known as Hapaco, we have our own industrial development agency, and we feel we have in place the network. The problems that we have relate to, how do we get funded?

We went so far as to pool 13 different townships to go for housing rehabilitation grants and still could not meet the criteria.

Mr. **Grandy**. New York has a lottery, does it not?

Mr. **Kelly**. Yes, it certainly does.

Mr. **Grandy**. How much of that money goes to economic development in the State?

Mr. **Kelly**. None of it. It all goes to education.

Mr. **Grandy**. You see, in Iowa that argument is just the reverse. Most of it has gone to economic development, and the problem has been, the smaller communities which are kicking into the lottery are having a heck of a time trying to get it back to those communities. I was just wondering if that was a common problem that you had.

So there are not, at least in your structure, State dollars really that are available to be parceled out to communities your size and smaller?

Mr. **Kelly**. No.

Mr. **Grandy**. I see.

Mr. **Kelly**. As a matter of fact, our State budget devastated county governments this year with cutbacks in revenue sharing and social services programs and other programs, along with, at the same time they cut the funding, increased the mandates by a considerable amount of percentage so that our little county took a hit of almost $750,000 during the middle of our budget year. We have absolutely no way of making that up.

Mr. **Grandy**. So you have that plus all of the Federal compliance dictums that are going down.

Mr. **Kelly**. That is correct.

Mr. **Tabor**. Mr. Grandy.

Mr. **Grandy**. Yes, sir.

Mr. **Tabor**. If I could just add one point on your question about State block grants, we have kind of a split camp within NACo when we have discussed this issue in regard to rural development.

There are some county officials that feel in their States they really haven't got that much from the State, they don't think the State is organized, and there are other county officials that work very well with their States; they are particularly working well on the community development block grant that the State administered, so they would like to do it.

I think the kind of compromise that we have come up with on this is that we could support State block grants for a number of the rural development programs if two conditions were met, two basic conditions. First, is that the State would have to put up some matching money to the Federal money so that we would leverage whatever Federal money was there.

Mr. **Grandy**. For example, 70/30 or something like that; the Federal Government gives you 70 cents on the dollar and the State kicks in 30.

Mr. **Tabor**. It even could be 50/50, as high as that.

The second condition would be that in any kind of policymaking that is going on or strategizing about rural development or economic development in rural areas, that we want local elected officials involved in that process.

Mr. **Grandy**. I totally agree with you.

Mr. **Tabor**. It is not a bunch of State bureaucrats.

Mr. **Grandy**. No, absolutely. The fewer bureaucrats, the better. That is one of the reasons I was trying to reduce the bureaucratic stream all the way from your community to Washington. If you can cut out some of the Federal bureaucrats, I think you might be, in most cases, ahead of the game.

But talking about local decisionmaking goes to the question that the chairman discussed about leadership, and I must tell you that as I look at some of the legislation that is being proposed right now, when you are talking about Federal funding for 60 percent of salaries for such personnel, to help us in employing and in some cases retaining expertise, I hope what we are talking about here is, if we offer any kind of cost share, we are developing leaders in the communities, we are not importing them to the communities, because I think the opportunity for chicanery here would be monumental.

I don't know how many communities that have gone out and hired some economic development director; the guy has brought a business into town; the business has ripped off the town and left. I hope that leadership is something that we want to underwrite, but we want you guys to pick the leaders and send them to Washington if you need to and run them through seminars and cost-share some of their salary, but make sure they are part of you and not part of us or some consortium of rural development directors out there that jump around from one depressed area to another. That, to me, is creating a job that we do not need in this particular economy. Would you agree with that?

Mr. **Tabor**. Definitely.

Let me just cite an example in our county. We have, in the last 12 years, had three different industrial development directors, all of them local individuals that have moved into our program and have learned from the ground up through educational programs and meeting with other industrial development directors around our State and also nationally.

Our success rate, quite frankly, has not been good, and I think there are probably a lot of reasons for that. However, we are becoming a recognized force in a small county such as ours, and we tend to stay local. We don't want to import an industrial development director from Dade County, FL, that has had that kind of exposure. We need somebody that relates to rural America, rural Essex County, and knows the people there, they know the workforce and have the ability to go out and work to either enhance existing industry or bring new industry into the rural area.

Mr. Grandy. I agree with you there because I think leadership has to be homegrown. I don't think it can be imported.

Let me just ask, if you would submit to the committee, Mr. Tabor, whatever written commentary NACo has on this block grant versus federally subsidized programs for rural development, because that might aid in our debate and legislation.

Thank you, Mr. Chairman.

Mr. English. Thank you very much, Mr. Grandy. I appreciate it.

A couple more questions, Mr. Kelly, for you and Mr. Tabor.

As we were saying, there are many communities out there, rural communities, that desperately need help. Those that need the help the most are the ones that have the least. They would not be able to take advantage of matching funds. They are excluded, as was pointed out.

But I noted with interest that you are asking us to incorporate in any legislation drafted here many of the provisions of the Senate bill. Is that one that you are suggesting we not incorporate?

Mr. Kelly. I am going to let Mr. Tabor answer that, if I could, Mr. Chairman.

Mr. Tabor. Sir, we are not completely satisfied with the Senate bill, and we particularly have concerns with the matching requirements on those revolving-loan funds for very small communities.

I think the way the legislation finally came out is that instead of a dollar-for-dollar match it would be down to 50 cents if it was below 70 percent of the State median income.

Mr. English. Doesn't that put us in a position where the rich get richer and the poor get poorer?

Mr. Tabor. Yes.

Mr. English. If your city and your county or your State doesn't have money, they can't take advantage of it. Those that do, there is more money available to them because the poor cities, counties, and States can't take it. So, really, this is a deal that enhances the wealthy communities, wealthy States, and wealthy counties. Is that right?

Mr. Tabor. Yes. We are familiar with a number of examples.

I think the president of the national association of development officials, in his seven or eight county area, thinks he would not be able to handle this thing because he wouldn't find the matching money for a revolving loan fund. So I think something has got to come up where we either give some discretionary authority to whoever is going to administer that program that they could take into consideration to have a waiver on the match.

Quite frankly, if you look at revolving-loan funds in the House as one way to spend a limited amount of money, I would hope that you would come up with some slightly different approaches than the Senate has on this.

Mr. **English**. The other thing—and I understand the sense of urgency to pass legislation, and I think most members of this committee and certainly rural Members from the House would agree with that, but, by the same token—I guess the question I am asking is this. We would like to develop a good solid piece of legislation. We would like to develop legislation that goes far beyond anything the Senate has. If we are talking about basically reorganizing and redirecting programs, that is a much, much different situation.

How do we make that judgment? You are telling us, "Gosh, we want this passed this session." As I remember it, the schedule calls for the House to adjourn in October. We are scheduled to finish our hearings—and around the country we have got five regional hearings—by the end of August. Would you prefer that we put together a carefully crafted bill that goes beyond what the Senate has even though it may be January or February before that bill is ready, as opposed to October, or would you simply rather have a bill no matter what it is—you know, "Give us a rural development bill, and let's get the thing passed so we can run it up that flagpole by the first part of October"? Can you give me a sense of priorities here?

Mr. **Tabor**. Sir, we have tremendous respect for the wisdom that is in this committee. I think if you wanted to put together a bill in 2 weeks, there is enough information, and you would know where you would want to go. I don't think it is a question of time if you really want to put together a solid bill, because this is not a new issue. I mean you have held hearings over the last 2 years.

Mr. **Grandy**. Will the chairman yield?

Mr. **English**. I would be happy to yield.

Mr. **Grandy**. I am intrigued by your comments and by the timetable, because obviously even in your own testimony you have referred to rural health care, which is not the purview of this committee; health care comes out of Energy and Commerce and Ways and Means. EPA, landfill—that is another committee.

It seems to me, if we write a rural development bill in this committee, Mr. Chairman, it is going to have to, just by the nature of our jurisdiction, be somewhat limited and not possibly address all of your concerns; the rural debate will go on. That is one of the things that confuse me, how much can we do in this committee?

Mr. **English**. I think the gentleman makes a good point, but I would also like to point out that this committee does have jurisdiction over what many would consider to be critical mechanisms, such as funding, and we have the authorization for Farmers Home and REA and many large sources of funding, and that may be where we can make our greatest contributions. This is the reason I wanted to make sure we approached this very carefully.

Also, we have a Rural Development Agency. I would like to see the Rural Development Agency really mean something. I would like for it to be for real. I think there is something to be said for putting together, as I said, under one umbrella many of these resources or at least have a place to go. That may be something that we would want to consider.

But, as I said, I would hope that anything that this committee puts forth be solid, that it be legislation that is going to make a substantial contribution and will carry forward on into the next century. Certainly the needs of rural America are not going to leave us.

I guess if we are talking about a matter of 120 days or 6 months even between the two, I was wondering just where on the scale you all come down. Would you rather have a carefully crafted bill 6 months later, or would you rather simply pass through something so we can say we passed a rural development bill?

Mr. TABOR. I think, obviously, sir, we would like to have as carefully crafted a bill as you could do, but I think our concern has been that there is some momentum on rural development. A lot of people are talking about it, proposing ideas, and we don't know if that is going to be here next year. We have seen rural development come and go over the years in terms of congressional popularity. Also, next year you have a farm bill, and, from our viewpoint, we would like to see the situation avoided where it was agricultural assistance versus rural development.

Mr. ENGLISH. Do you think that this is what you are faced with? Do you think that there is a conflict?

Mr. TABOR. Yes.

Mr. ENGLISH. I guess, coming from my district to a big farm district, we don't see that conflict; we see the two complementing each other rather than it being a conflict.

Mr. TABOR. I think in the funding mechanism within the Congress is what I am speaking about. We have more urban Members in Congress than we have rural Members, and if urban Members start thinking that we are paying out too much to keep farmers going, well, then, that could rub off on to any funding for rural development. That is our concern.

Mr. ENGLISH. Yes. Of course, we face that danger any time. The administration, for instance, cut all the rural development money. That is where they went out to get their money. They didn't have to wait for a farm bill to do it. So I think that this may be a threat that we face at any time.

As I said, we are going to move as quickly as we can, and certainly if we can put together a good, solid, comprehensive bill and get it out this year, that is fine with me; I would be delighted to do that; I'd like to see us meet that target.

But I was wondering on your priorities which one you would rather have, whether you want a bill so we can run that flag up the pole and salute it or whether you want something that is going to be helpful and productive.

Mr. TABOR. We want a good bill, but, at the same time, whatever comes out this year or next year is not going to be, hopefully, the end of this.

Getting to one of Mr. Grandy's points about these other issues that we have addressed in our testimony that are not under the jurisdiction of the committee, we think that the members of the Agriculture Committee should play a stronger role in working with other members of other committees. We specifically think that on the highway bill rural areas have been neglected for years, and I think it is time now to redress that, and you could have tremendous influence. I mean that is the biggest infrastructure program going, the Highway Program.

Mr. **English**. That is the thing we are hopeful of. Through these hearings, as you may very well note, we have not limited the testimony to the jurisdiction. In fact, we have encouraged testimony from health care, education, and various other things, simply because of the fact that we feel that those are vital ingredients in any rural development package, and we have to have that. So we are hopeful that we can play something of a leadership role in this subcommittee, and hopefully we can work with and encourage our sister committees to act on that. That certainly is our desire and our hope, and we will move on as quickly as we can?

Mr. Grandy, do you have any other comments?

Mr. **Grandy**. No, thank you.

Mr. **English**. I want to thank you very much. We appreciate your testimony. You did a fine job.

Mr. **Kelly**. Thank you, Mr. Chairman.

Mr. **Tabor**. Thank you, sir.

Mr. **English**. Our next witness is Mr. David Senter, who is the Washington director of the American Agriculture Movement in Washington, DC.

David, we want to welcome you, and let me also say for you and all of our witnesses today that if you would care to summarize your testimony, your complete written testimony will be made a part of the record. That holds for our previous witness as well as all the following witnesses today.

STATEMENT OF DAVID SENTER, WASHINGTON DIRECTOR, AMERICAN AGRICULTURE MOVEMENT

Mr. **Senter**. Thank you, Chairman English and Congressman Grandy. I appreciate the opportunity to appear before this committee this morning on this important subject of rural development.

The American Agriculture Movement believes that rural development can actually be boiled down to a couple of basic ideas. First, we believe that the surest way to revitalize rural America is to restore profit to farming; and, second, we are convinced that there is no way that here in Washington, DC, we can pass one rural development program that will meet everyone's needs.

In the American Agriculture Movement we have spent hours conferring with our leadership from States and regions. We would like to support every proposal that is put forward, but we also know that there is not one program that is going to solve everyone's problem. We have lost $250 billion in equity in rural America in the last few years, so we are realistic enough to know that $200 to $300 million is not going to replace that and solve our problems.

We know that if rural economic development is to be successful that it has to come from the grassroots. The people themselves on a grassroots level are in the best position to know their problems and the talent available and how to address them. They may need help from the Government, they may need some budget dollars, but let's let the rural communities tell us what they need and then take the limited financial resources available from government and do the best job we can of dealing with those problems.

We do not want to see our limited dollars spent setting up a Federal bureaucracy that will spend two-thirds of the money figuring out how to deliver a service with the remaining one-third.

AAM proposes that USDA has the best rural network already existing in this country. We propose using the county agents to call together local meetings of business leaders. Let's bring together the Farmers Home loan officers and the REA leaders, rural telephone, Farm Credit System, chamber of commerce, mayors, school boards, let's bring all of these existing groups together and let them decide what the priorities are and to set forth a plan for that community.

We believe that the county agents should then have the responsibility for reporting back to USDA with the consensus of the needs for that area. Let's use that existing network.

USDA should be required to report back to Congress in a timely fashion with a report as to what Federal dollars are needed and the priority of needs in the different States and regions.

Perhaps the business and industrial loans of the Farmers Home Administration could be used again. SBA is geared to urban areas, and we need similar type loans in rural. But we also may need sewer improvements, water, housing, rural electric, telephones, community centers, new schools, health care. But without some way to bring together all of this information and compile it and report back to Congress, there is no way we know where to fund the dollars to do the most good.

So we would hope that we diagnose the problems before we administer the cure. In AAM, we want to see rural development legislation, but we also want to see legislation that will do the most good for the most people and live within the budget constraints that we are now under.

On a little side note, and we believe it ties in very directly to rural development, I attached to the testimony a survey that we carried out in Kansas, Oklahoma, and Colorado. Some of the answers were very interesting. Not a single new farm truck had been bought in any of those counties by the participants in the survey since 1979. Between 1976 and 1982, 31 new combines were purchased but only 6 during the last few years, and also new tractor purchases during the 1970's, 41 were bought compared to 17 in recent years.

So we believe that it is two-pronged. We will be writing new farm legislation next year. Hopefully, we can deal with the profit side of it and write a better farm program for producers, but at the same time we are hopeful that we can get the information together, that the rural development division in USDA should be raised, they should be given a higher priority, and that they should report back and help bring together all of the diverse groups and people all working for a common goal.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, David. I appreciate your statement.

I want to follow along the line of questioning we had with the previous witness. I am rather intrigued by this conflict that some people see between agriculture and rural development. In many communities, I think, throughout the country, if you talk about rural development, people focus a great deal on economic development and talk about jobs and about bringing money into the local economy so that people can buy those items from the various stores in the rural communities and provide the tax base so that you can have a hospital and provide a good education system. I believe all of these are considered to be a part of rural development by most people. Throughout the history of this country, and even today in rural communities, rural development has been agriculture which is an industry.

I don't understand then how we get into this type of conflict that agriculture and rural development don't go hand in hand.

If you had a small McDonnell Douglas aircraft plant that moved into a local community, that is an industry that provides jobs and brings money into that local community. I don't see why then we can't say that it is similar to or identical to what agriculture does. Agriculture is an industry. You have people out there working in it, therefore, bringing income into the local communities. They have the job-related industries, whether it be an implement salesman and his store or whether it be a feed mill. Those are all jobs that bring money into the local community and give people a livelihood. That is what rural communities, to a great extent, are made of.

So I suppose if you follow that line of logic and you said, "Well, you know, we don't want anything to do with agriculture as far as rural development is concerned; agriculture is not a part of what we do, and we are afraid that we are going to get into conflict with what is done for agriculture and that somehow is going to take away from rural development," I suppose you would have to come back and say, "Well, we don't want to pass a defense bill, because that Boeing plant out there—some of that money might go to Boeing instead of going to agriculture, or instead of going to rural development." That doesn't seem to fit.

The thing that has struck me is, the lesson of the 1980's has been the fact that we need a great deal more than agriculture as an industrial base providing jobs in rural communities. That doesn't mean that you ignore agriculture, forget agriculture, or think that agriculture doesn't count any more as far as rural communities are concerned. That is still going to provide the backbone of the economic base and we are going to try to build on that; we are going to try to enhance it. We are going to have to come up with means of providing jobs beyond that.

Among the farmers that you represent and other agricultural groups that you work with, have you detected or noted any kind of conflict developing between trying to build rural America as opposed to what might be done in the farm bill?

Mr. **Senter**. No, Chairman English, we have not found any indication of that. Our members, the farmers, they are on the school boards, they are on the hospital boards, they are involved in these rural communities. We actually view rural development legislation that it will complement our writing of the next farm program, because, let's face it, we are all in this together. We write farm programs for farmers to produce under, but the schools our kids go to, the churches we go to, those communities are a part of our everyday life, just like that farm, and we view this rural development package will actually complement and help build support for our farm programs when you talk about it as a package deal.

So we do not view this as something that we are afraid is going to take money out of our farm programs. It is not an "us or them" type of situation. It is a package deal, and we have to deal with it that way and come forward with some very innovative ways and programs that will make use of what is already in place but in more of a coordinated way and targeted way.

Mr. ENGLISH. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

Dave, I'm intrigued by your survey here, particularly where you are taking some questions on taxation. What does it mean when minus 1-percent favor an excise tax increase?

Mr. SENTER. Actually, when they figured out the percent, it came out to a little bit of an odd number, and so we just round it off to the nearest even number.

Mr. GRANDY. I think what we can presume from this minus 1 percent yes, 98 percent no, is that a gas tax, any kind of excise tax, isn't going to play very well in terms of rural economic development. Isn't that pretty much what your study has indicated?

Mr. SENTER. Yes, that is what the study has indicated.

Mr. GRANDY. I also am intrigued to see that a lot of your producers and the people that you surveyed would like to see—it says, "Reinstatement of the tax credit." I assume that is an investment tax credit and income averaging.

Mr. SENTER. Yes.

Mr. GRANDY. That, I guess, tells you that they have some income to pay taxes on, which I suppose is a net plus. But you touch on something that I think goes back to what I spoke to the other panel about. If you load up a lot of excise taxes—fuel taxes—these kinds of regressive taxes, it is going to hit first in these rural communities again, right?

Mr. SENTER. Yes, that is exactly right.

Mr. GRANDY. Assuming that we decide some of these tax issues in another panel, let us get back to dollars into these rural communities. When you were talking about putting together your local officials in a kind of a consortium of advisers, would you favor a block grant approach of rural development dollars coming back to States so that your local groups would access them and decide how they want to spend the money?

Mr. SENTER. We would look at that kind of proposal, but it would have to have certain percentages built in that would be designated to go to rural counties and into these projects, because many of our agricultural States, such as was touched on with New York, we do not want to just provide money that would go into the counties or communities that have matching funds or funds available, because we have a lot of need out there in communities that could not come up with matching funds.

So if the criteria were right and provided that we do take a look at what the needs are in Iowa, and Kansas, and the different areas, so that the money is not just thrown out there for any purpose but so that it is directed into those areas that appear to have the most need from these local communities, then the closer you can get the dollars to the local level to be used, the more dollars they are going to have to use.

Mr. **Grandy**. I agree with you. I just think that although there are going to be some similar needs throughout these communities, I think the uniqueness of each one of these communities and their struggles to comply with Federal regulations to revitalize their own economy are going to be unique enough so that I wouldn't want to prescribe a lot of set-asides and matching funds similar to what we had in the vocational education bill which Mr. Gunderson and I just worked on. Indeed, we tried to take some of those proscriptions out so smaller communities could get more technical assistance for their vocational institutions and create job opportunities by creating those vocational institutions.

Let me ask you this. There has been some discussion and there will be more about allowing the Farm Credit System into the rural development business, letting them make some of these infrastructure loans on a limited basis. I mean this has gone from the more conservative approach, which would be to allow funding only for infrastructures—hospital wings and perhaps spec buildings in communities and things of that nature—to lending money to businesses.

Where does your organization come down on expanding the powers of the Farm Credit System into some rural development lending?

Mr. **Senter**. We would support that. We believe that we have to bring all of the different partners together, be it in lending expertise, REA, rural telephone; all of those different agencies have to come together in order to be able to deal with the size problem and need that we have. So we would have no problem with the Farm Credit System being allowed to move into the rural development loan programs.

Mr. **Grandy**. Would that include lending money directly to businesses as well as to communities?

Mr. **Senter**. I believe that there would have to be some criteria built in, but as far as helping finance a farm equipment dealer or a hardware store, that kind of infrastructure, I see absolutely no problem with using all of those resources.

Mr. **Grandy**. Thank you, David.

I have no more questions, Mr. Chairman.

Mr. **English**. David, I appreciate your testimony. You did a fine job, and I thank you very much.

Mr. **Senter**. Thank you, Mr. Chairman.

Mr. **English**. Our next witness is Mr. Charles L. Frazier, who is with the National Farmers Organization here in Washington.

Chuck, we want to welcome you here today and appreciate your testimony. If you would care to summarize, we will certainly include your written testimony in the record.

STATEMENT OF CHARLES L. FRAZIER, NATIONAL FARMERS ORGANIZATION

Mr. **Frazier**. Thank you, Mr. Chairman. It is a pleasure to appear here this morning with you, Mr. Gunderson, and Mr. Grandy.

I will undertake to summarize, and I am pleased that some of my testimony will pertain especially to some of the questions you have already raised in your discussions with other witnesses this morning.

As you very well know, we are a broadly based organization dealing with cash crops, dairy, and livestock, so our interests tend to be general in nature also.

In preparation for this hearing I had the help of a little informal committee consisting of a farmer, a banker, and a local businessman, and I must say that they presented me with more problems than answers, but nevertheless, I did go to the country for some background.

Let me try to hit the highlights in this manner. We are convinced that the rural development effort, as brought out in your earlier discussion, must be based in local decisions. The thought that we can dictate or handle the widely varying problems that occur throughout the country with a Washington devised formula is rather alarming. So I have three suggestions for you this morning, trying to take into account this need for local support, local understanding, in the rural development effort, and acknowledging that many States already have active programs of one type or another going out there, and the opportunity that is presented with developments in the communications industry in recent years.

We are undergoing, I think, a situation of rapid change in the ability to communicate through the satellite systems and utilize other facilities in dealing with these local problems. Said another way, I think local authorities, if assisted somewhat from a Federal standpoint, can now depend upon an improved communications industry in confronting these rural development problems with which we are all so concerned.

So in keeping with that spirit, I want to rely on the modern technology on the one hand and reach back in history and suggest to you that you might borrow from World War II days.

I wasn't present here in Washington for all that time by any means, but I had a chance to see it before I left for the service and to observe some of the accomplishments when I returned. I think the local war boards that were structured in those days to deal with the very tough problems presented by wartime, and having restricted funds available, restricted numbers of people available, the local authorities of the agricultural agencies were able to deal very effectively with the problems relating to allocations, rationing, which farm boy should go to the service, which one should stay home; this was no easy task.

But the record would show, if we could really bring it all up to date and review it now, that there was a great deal of talent and a great deal of local initiative developed in that working relationship between the local authorities at that time, and if you will be patient with me for a moment I would point out two or three things about it that I think were rather significant.

In the first place, the elected farmer chairman of the county ASC committee was the chairman of the effort locally. Other committee members and representatives of the other agencies worked with them. They were at liberty to call on and work with authorities in State government, local government, the local courts, and worked rather effectively with the business community locally, because, again, you had challenging variations county by county on the problems with which they were dealing. In some cases, it was a matter of expanding production of crops that were badly needed; in some cases, it was a matter of restriction of allocating scarce resources, which is a problem in this case.

So I want to encourage you to think about the management or the channel, if you please, through which you may reach as the Federal Government to the local authorities in conducting this whole rural development effort, and I suggest to you that it would be most economical and effective to restructure such a committee at the local level and work through some of the people at the State level in comparable positions.

Even while recommending that policy, I want to endorse the proposal of the NRECA people to establish a new unit in the REA agency to work with the problems of technology. Overly briefed or simplified, they have wonderful resources in those REA co-ops dealing with problems in energy, water, the power, the know-how to cooperate with small industries, and I think all of us agree that our best opportunities in this area are resting with small industry, small business houses, and so on. We can't all have a large McDonnell Douglas plant out there at the local level.

So our chances to really improve the local economic base probably rest with our ability to move some small industries back from the urban areas to the rural communities. We think this is a challenge that could be handled. We think that REA unit would be constructive, and I believe that creation of this war board type of structure and such a unit within the REA would be complementary. In other words, think of one as a channel of administration of Federal resources; think of the other as a channel of technology that could be helpful in many local counties.

To conclude rapidly, the third point that I bring to your attention is one Mr. Senter spoke of a moment ago, and perhaps other witnesses as well. We are rather keenly aware of the fact that most of the rural communities in this country are centered in three types of industry: oil and energy on the one hand, timber in the second case, and the third, the one with which we are most familiar and most concerned, the farming communities.

The greatest contribution you can make to rural development is to reverse the low-price policy of the 1985 act and take some steps to improve the prices of our major farm commodities even as you face this new budget challenge here in the Congress. We think that you could move for some increase in loan rates, some reduction in payments which are coming as a matter of budget pressure in any event, and turn around the direction of the economy out there in the many communities where we are producing the grains, the cotton, the rice; that rather summarizes our views this morning.

I bring up the last because we think it is very important and, second, to encourage the members of the committee to spend some time and effort in such analysis or economic study, whatever you may feel is necessary now as you prepare for a new farm bill in the spring of 1990.

[The prepared statement of Mr. Frazier appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Chuck. I appreciate your testimony. You have some very stimulating ideas there. Certainly we will take those into consideration.

I want to ask you the same question that I asked David Senter. Again, I am troubled by the idea that somehow agriculture is separate from a rural community, or that you can separate agriculture from the rural community. That may be our fault. Maybe we talk too much about the family farmer as opposed to talking about the agricultural industry, because that is what it is, it is an industry, as I said, just like any other industry; it creates jobs and brings money into the community.

Have you detected any conflict as far as the rural community, the people who make their living off agriculture in rural communities and the farmers, the farm organizations, a conflict that we would face as far as the farm bill is concerned?

Mr. FRAZIER. No, I don't think so. As a matter of fact, in our continuing contacts daily, weekly, what-have-you, with our members, it is almost impossible to imagine a farm family out there today who does not have some active, specific interest in what is going on in town. We have too many instances in which, just as a matter of economic survival, a member of the family is working in town. We have a number of people in farming who have to look for a sideline to keep the whole thing afloat in recent years.

So I think our people are very keenly aware of the troubles facing our schools, our churches, the infrastructure, the boarded up business houses on Main Street; we are deprived of some services that we would like to have locally.

I believe our people do not feel a compelling competition here. I think they recognize that the welfare of the family farmer and the welfare of the businessman in town are deeply entwined.

Mr. ENGLISH. That has certainly been my experience from the communities that I live in, and I suppose ours are as hard hit in Oklahoma as any place in the country from an economic standpoint.

I also agree with you. The key, as it would appear to me, to rural development has to be the question of leadership in the local community. We can offer a helping hand from Washington, we can provide assistance through programs, but ultimately it has got to be up to the leadership in that community to determine whether that community is going to be successful or not, and quite frankly, there are some communities that don't want to change, they are not interested in this kind of development, and that is fine, that is their community's decision.

But we do have this problem of an information gap that exists for people in rural communities in trying to determine where they can receive assistance.

The concept of having a central location where they can acquire information and assistance; does that appeal to you, Chuck?

Mr. **Frazier**. Yes, it does, but I believe it probably could be set up within the current agencies. That is the point I was trying to make. I believe we have sufficient talent among the staff people and the elected committeemen. After all, you have farmer committees on FmHA, ASC, they have relatives in town, they have friends on Main Street, they must deal with the banker and the local businessman. I think those structures could all be brought together at some point there, and, frankly, what I was seeking was a way to do it that would not call for another big item in the budget. I just think you need a line of administration without the cost of a whole new bureaucratic structure.

Mr. **English**. I wholeheartedly agree with what you are saying. As has been pointed out, the budget provides $300 million. That is not much money when you are talking about a job of this magnitude. It seems to me that the real potential gains in rural development are going to come from redirecting programs that are in existence now, remaking the mission that they have, updating the mission, modernizing the mission, and also looking at 1990 and beyond and what is going to be required in trying to weave these programs together so that we don't have gaps and we don't have duplication. That may be the single largest contribution that can be made, given the budget situation that we are facing today.

I certainly think that there is a great deal of improvement that can be made in that area, therefore, I agree with what you are saying about on the REA, and certainly the rural telephone bank and then the existing programs have much that they can still contribute.

Mr. **Frazier**. Right.

If I might add another thought quickly, it has occurred to me that our problems have become so large in the inner cities, thinking of drugs, relief, the homeless, the things that are really bearing down on us hard in all of our larger cities, I believe that we could get strong support from some of those areas for a better rural community and perhaps reverse this population shift that has been underway over the last 15 or 20 years in this country. I think we might find a number of responsible city mayors and councils who would realize that we need to create a better locale for those people back out in the country.

Mr. **English**. Good point.

Mr. Espy.

Mr. **Espy**. Thank you, Mr. Chairman. I appreciate the opportunity to come to this one in a series of hearings that we have been holding to prepare for our rural development bill which we will include as a part of the 1990 farm bill. I apologize for being late. As the chairman knows, we have Democratic caucus activities all morning, and the speeches are longer than they usually are.

I am reading your statement, Mr. Frazier, and I don't understand the reference to the war powers authority. Are you saying that the principal agency for rural development in a specific county would be the ASCS office?

Mr. **Frazier**. Yes, I was referring to the operation in World War II times.

Mr. Espy. I understand that.

Mr. Frazier. And, quite frankly, this paper was done from memory. I contacted the Department of Agriculture, and I got a little bit of help from the historian over there but not very much. There aren't many people around any more that were active in the Department in those days.

But the highlight of the whole thing, as I recall and as my friends reminded me when I returned from service, was the cooperation that was generated between the elected county committeemen and the staff people in the other Federal agencies working even across departmental lines with the defense authorities, draft boards, city governments, and county governments and the county court. There were many issues in those days in my home State of Missouri that went to the county court for resolution before they were handled by the war boards.

Mr. Espy. I suppose I am asking though, the principal agent for rural development would be the line authority coming from the USDA through ASCS and then filtered out to the volunteer organizations, bank officials, and so forth.

Mr. Frazier. Yes. All I am saying is that the ASCS is an action agency. They conduct programs that have to operate on schedules. They are accustomed to dealing in that manner, and they have a rather large staff. If you choose some other agency, so be it, but I was using that as an illustration of a means of getting this thing underway in an effective manner.

Mr. Espy. Would you agree with the idea of some who propose that the USDA's name should be changed to the U.S. Department of Agriculture and Rural Development?

Mr. Frazier. I am rather old-fashioned; I like the old name.

Mr. Espy. You like the way it is?

Mr. Frazier. Yes, sir.

Mr. Espy. Thank you.

Thank you, Mr. Chairman.

Mr. Harris [acting chairman]. Thank you, Mr. Frazier.

At this time, we would like to call forward Mr. Wayne Clark, president of the Missouri Telephone Co., testifying on behalf of the United States Telephone Association of Washington, DC.

Mr. Clark, we are glad to have you with us. Your statement will be made a part of the record, and you may read portions or all of it within the time constraints, or you may summarize your testimony.

STATEMENT OF B. WAYNE CLARK, PRESIDENT, MISSOURI TELEPHONE CO., ON BEHALF OF THE UNITED STATES TELEPHONE ASSOCIATION

Mr. Clark. Thank you, Mr. Chairman and Congressman Espy.

I am Wayne Clark, president of Missouri Telephone Co., and we serve about 24 exchanges throughout rural Missouri. I think there is a map that is available that sort of highlights that area. I appear before you on behalf of the United States Telephone Association, USTA, and we appreciate this opportunity to discuss the role of telecommunications in rural development.

USTA strongly supports rural development, and we want to thank the subcommittee for holding these hearings to fully explore the best ways to help rural America.

First of all, rural areas do not need new bureaucracies or unnecessary duplication of existing programs. Rural areas do need the proper administration of current development efforts. The REA telephone programs, we believe, if properly administered can help bring the emerging information age to rural America.

Up-to-date rural telecommunications can attract industries and play on rural America's advantages of low labor cost and high quality of life, and rural telephone companies, in conjunction with REA, are the best vehicle to accomplish this update in rural telecommunications.

As an example, fiber-optic cable can link rural schools and colleges, enabling the schools to share resources. It can also make interactive video for rural education a reality. Modern telecommunications can do the same thing for rural health care and social services. Preserving local schools and hospitals is crucial to maintaining rural communities. When schools and hospitals close, towns cease to exist.

USTA was 1 of 117 signers of a recent letter to Congress that urged consideration of comprehensive rural development legislation. We understand the loss of jobs and population in rural America means fewer business and residential customers to support the cost of the telephone network. This makes even more remote the possibility of bringing the information age to rural America.

Any rural development legislation should enhance existing rural telecommunications. Our members have provided telephone service to rural America for almost 100 years. The majority of our members also have borrowed from the REA to build that network.

Rural America is not well served by legislation which encourages bypass of the public switched telephone network. Use of that network is what pays its cost, and loss of the traffic on that network means loss of revenues. This leads to higher rates for some, which means that service will become unaffordable and also that new revenues would not be generated then for modernization. A downward spiral can result, and if more subscribers then leave the network, the never-ending cycle begins. Such a spiral would endanger the security of over $8.5 billion in loans made through the REA telephone programs thus far. This does not serve the interests of rural America or the Government.

The benefits of network modernization are beginning to happen in rural America for telecommunications. Rural telephone companies are already laying fiber-optic cable and installing digital switching, and they will continue to do so in the future, especially if affordable financing is available.

A strong and effective REA Telephone Program is the best way to assure a telecommunications infrastructure capable of meeting the needs of rural America. Proper administration of the REA telephone programs can effectively accomplish most rural telecommunications goals.

The present REA Act allows funding for two-way video for educational purposes and for facilities to link hospitals, Government offices, and businesses. What rural telephone companies need most in order to modernize is commitment by Government and an assured source of affordable financing. We need an REA that is encouraging rather than discouraging rural telecommunications development.

Unfortunately, administrative efforts to undermine the program have diminished its effectiveness. One of these efforts was the artificial inflation of Rural Telephone Bank interest rates, and we thank the chairman and the committee's work for their strong and successful efforts in correcting that situation. As a result of proper RTB interest rates, loan applications are up dramatically, but more can and needs to be done.

USTA recommends the following to make the REA Telephone Program more effective:

Direct REA to lend the $153.8 million in carryover insured loan funds authorized in previous years but held by REA;

Direct REA to develop streamlined loan processing procedures to correct recently issued REA regulations and direct REA to lend at terms up to the statutory maximum;

Direct REA to lend for all purposes authorized by the act, including funding for advanced telecommunications equipment, to permit RTB borrowers to rescind the unadvanced portion of high interest rate loans and to reapply without prejudice for a new loan for the same purposes;

Direct REA to make full use of authorized loan funds and direct REA to free up private capital that is locked up in rural telephone systems; today, amounts invested by borrowers for rural telecommunications or other rural development purposes should not be treated as a dividend or distribution of capital;

Direct REA to make loans to telephone companies for cellular telephone service, a new technology;

Direct REA to eliminate policies which require borrowers to meet interest coverage tests which exceed act requirements; such policies will disqualify borrowers from the program or force them to raise local telephone rates; and

Direct REA to increase its technical staff to help apply these new technologies in rural areas.

All these proposals, which could enhance the value of the rural telecommunications infrastructure by at least $500 million can be accomplished with little or no additional cost to the Government. The answer to meeting the needs of rural America's rural telecommunications infrastructure is not new programs and bureaucracies, it is to make the existing REA telephone programs work more effectively.

We thank you for the opportunity to appear before the subcommittee and present our views on rural development.

[The prepared statement of Mr. Clark appears at the conclusion of the hearing.]

Mr. HARRIS. Thank you, Mr. Clark. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman.

I am just sitting here reading through your statement. How much of this can be done immediately without even going through the processes necessary to modify the REA? With the distress situation that you have now—can't the telephone company impact upon the conditions in your area without doing all of this?

Mr. CLARK. To develop and continue to modernize the telecommunications infrastructure, we will need the financing in order to do that, and just applying the intent of the REA Program, the Telephone Program, I think will do that.

So some of these points are just to reemphasize carrying out what we think the REA Program has authority to do but just hasn't been done in recent years. But the financing will be necessary to do some of this.

Mr. ESPY. What percentage of your service area is without telephone service?

Mr. CLARK. A very, very small percentage of our service area, practically nothing in our particular area. Nationwide, I do not have a percentage, but we can find that information. In Missouri, there is a very small area in the southeast part of the State.

Mr. ESPY. Thank you.

Mr. HARRIS. Thank you. Mr. Chairman.

Mr. ENGLISH. Thank you very much.

Mr. Clark, I think that certainly the Rural Telephone Bank and rural telephone cooperatives, rural telephone systems, and communications systems in general, have a critical role to play in any rural development program. I know in my district, visiting a small rural community, was a small industry that was planning to move into that community.

In fact, it was well known in the community that they had given the final green light to moving in there. Their people came in to prepare for it, and suddenly they found that the communications system that existed in that community could not handle their modern needs, which were very sophisticated needs. That forced them to move into one of the metropolitan areas. I can't help but wonder how many times that kind of a situation has developed.

I believe we have a whole new generation that we have got to look forward to in the future. We may have brought telephones to the rural communities and to the farms, but now the question is making sure that those rural communities don't fall into a backwater of communications development where they are left behind and therefore excluding them from being involved in developing economically.

So I suppose I don't really have a question other than to say that I wholeheartedly endorse the concept of moving ahead and making certain that our rural communities have communications systems that are adequate to meet whatever needs they may have and whatever opportunities may be presented.

Do you have any comments at all? I know particularly up in my part of the country we have got one of our small rural telephone cooperatives that is already into fiber optics. We had hearings earlier about the testimony with regard to the role that it will play in bringing education to rural communities as well. So I think you have a vital link and a vital role to play in it.

Mr. CLARK. I agree with you wholeheartedly, and our company is progressing that way itself.

Mr. ENGLISH. We appreciate that very much.

Thank you very much, Mr. Chairman.

Mr. HARRIS. Mr. Stallings.

Mr. STALLINGS. No questions, Mr. Chairman.

Mr. **Harris**. Mr. Clark, certainly I want to mention one thing. I appreciate your testimony. There has been sort of a common thread through the testimony of witnesses we have heard where many people have said that we don't need new bureaucracies—and I certainly agree with that wholeheartedly—and that we just need to target our resources and, hopefully, hone in on some areas where we can have the most impact in trying to revitalize rural America.

Thank you for your testimony today.

Mr. **English**. Could I ask one other question, Mr. Chairman?

Mr. **Harris**. I would be happy to yield to the chairman.

Mr. **English**. Mr. Clark, there is one other question I did want to touch on very briefly and very quickly.

Obvious, the Rural Telephone Bank and the REA play a major role in the funding for the kind of efforts that we would like to see in rural development. The program as it exists now, as I understand it, certainly is nothing that would prevent it from taking place. There is nothing in the law, in fact, the law encourages this kind of development. But we have had from time to time problems from the Rural Telephone Bank Board and from the Administrator of the REA. Is there a recognition and an understanding, from what you can tell, that the Rural Telephone Bank Board and the Administrator are now prepared to move ahead in encouraging telephone companies to install up-to-date modern communications systems in rural communities?

Mr. **Clark**. I would like to respond affirmatively to that, but I am not sure if it is really the case at this time. The Bank Board still has the divisive set-up that has existed in the past. As I say, I am not sure if the leadership in the REA Telephone Program is pressing ahead the way we believe rural telecommunications needs to go, and that is very important. Obviously, the financing and technical expertise that that leadership can provide is important to developing rural telecommunications, but I am not sure if it is really there yet.

Mr. **English**. It may be necessary as part of rural development legislation for us to include some adjustments and changes in the law to clarify the intent of Congress as to what we expect out of the REA and the Rural Telephone Bank.

We have had this problem before. It is unfortunate that we have to go to that extent, but it appears that, as the Supreme Court has ruled, to deal with a rule by one of these agencies you have to have a law. So it is unfortunate and I want you to know that I think most of the members of this subcommittee are prepared to deal with that and to include that as part of our rural development effort.

Mr. **Clark**. Thank you very much for your support.

Mr. **English**. Thank you.

Mr. **Harris**. Thank you, Mr. Clark, for your testimony.

Mr. Chairman, do you want to continue at this time?

Mr. **English**. I think we ought to recess and go vote.

Mr. **Harris**. All right.

We have a vote on the floor, and we will be in recess for probably 10 minutes, and then the next witness will be Mr. Bernard Simmons. So we will be in recess for 10 minutes.

[Recess taken.]

Mr. ENGLISH. The next witness is Mr. Bernard Simmons, who is executive director of the Southwest Health Agency for Rural People in Tylertown, MS, testifying on behalf of the National Association of Community Health Centers, Inc., here in Washington, DC.

Mr. Simmons, we want to welcome you here today, and we appreciate the fact that you are giving us your testimony.

STATEMENT OF BERNARD SIMMONS, EXECUTIVE DIRECTOR, SOUTHWEST HEALTH AGENCY FOR RURAL PEOPLE, ON BEHALF OF THE NATIONAL ASSOCIATION OF COMMUNITY HEALTH CENTERS, INC.

Mr. SIMMONS. Thank you, sir.

Mr. Chairman and members of the House subcommittee, especially our own Second Congressional District Representative, the Honorable Mike Espy, ladies and gentlemen, on behalf of the National Association of Community Health Centers, I want to express our appreciation to you, Congressman English, and the subcommittee for the opportunity to testify as you consider recommendations for rural development.

Mr. Chairman, I have a prepared written statement that details our recommendations for rural development. I would like to request that the written statement be entered into the record.

Mr. ENGLISH. Without objection, it is so ordered.

Mr. SIMMONS. During the remaining minutes of my time, I would like to take this subcommittee to southwestern Mississippi and the activities surrounding a rural community health center in Walthall County, Tylertown, MS.

The Southwest Health Agency for Rural People is a rural community health center that was chartered in the State of Mississippi in December 1980 for the purpose of making basic primary health care services easily accessible and easily available to the indigent and underserved residents of Walthall and surrounding areas.

The service area of the agency consists of Walthall, eastern Pike, southern Lawrence, western Marion Counties in Mississippi, northern Washington, and northern Tangipahoa Parishes in Louisiana. This service area consists of approximately 58,542 residents.

Southwest Health Agency is located in Tylertown, MS approximately 85 miles from the gulf coast of Mississippi, approximately 100 miles south of Jackson, MS, and approximately 100 miles north of New Orleans, LA.

Walthall County is a rural agricultural community that is boarded by the Pearl River on the east, the Bogue Chitto River on the west, rolling hills to the north, and flatland to the south. The community remains rural today with many of the rural customs and traditions still in effect today. The major industry is the dairy industry, and the county has been coined the cream pitcher of Mississippi because of the largest number of grade A dairies in the State. At its peak, the total value of farm products was in excess of $27.5 million, but with the agricultural crisis the dairy industry has been hardest hit, with the grain embargo on soybeans, wheat, corn, and, finally, the Dairy Buy-Out Program by the Department of Agriculture that has further depressed the rural economy.

Walthall County is not a health manpower shortage area but rather a medically underserved area. In the town of Tylertown, there are five full-time physicians reported and two that are semiretired with a population of 15,000 residents, thus making it appear that the area is a health manpower rich area when you look at the position and population ratio of less than 3,000 to 1.

Access to basic health care services is the major problem for most of the residents in the area due to financial barriers. By nature of this community's agriculture, there is a large number of uninsured, illiterate, elderly, and poor below the poverty level that need access to basic primary health care, 80 percent of the agency's population is uninsured, and 86 percent of the patient population is at or below the Federal poverty guidelines.

The leading causes of death in the area are heart disease, malignant neoplasms, cerebral vascular diseases, emphysema, and other chronic obstructive pulmonary diseases, and accidents in farm and auto. The 10 major or the most frequent diagnoses for visits at our agency are for hypertension, diabetes, annual physical exams, pap smears, maintenance checks, and prescriptions, arthritis, anemia, upper respiratory infections, urinary tract infections, anxiety, depression, and nervous disorders.

Other factors affecting the service area are that 43 percent of the residents have less than a 12th grade education; the dropout rate of students currently in school would be 40 percent, with an ever higher percentage for black males; the infant mortality is 17.9 percent, which also represents a 6-percent decrease in infant mortality since 1980; teenage pregnancy is greater than 25 percent, at 25.4 percent; and since the problem of access to basic health care is financial, the minority, uneducated, and poor do not practice preventive health care but, rather, get episodic care, usually in the crisis stage.

Since 1981, SHARP has run $2.9 million through the local economy; 30 percent of those dollars were generated from the local economy itself. SHARP employs 15 employees, with an annual payroll of $284,000 and serves in excess of 8,500 medical and dental patient visits annually. We have experienced an increase of 10 percent in requests for sliding fee services since 1983.

In the local economy, $36,000 is spent with the local pharmaceutical agreements for patient prescriptions. The local hospital receives and additional $18,000 for x ray, EKG, and outside lab services that we do not provide on site.

During the past, prior to 3 years ago, this hospital was operating in the red, and it laid off some 100 employees. Today, it is in the black and most of the laid-off workers have returned.

SHARP has recently purchased a 5,000-square-foot facility and put $55,000 in the real estate industry, and after July 1989 requests for bids will be announced that will put $130,000 of additional moneys into renovation funds into the construction industry and another $80,000 into the medical and dental equipment industry.

There are other major problems emerging due to property reappraisal, the loss of farms, and the dairy buy-out. All additional houses are sold or demolished due to being a tax liability that gives rise to a growing homeless problem in rural America, because there is no need for houses now to house farm workers.

SHARP has experienced an increase in the number of diagnoses for depression and anxiety, some of these being because of farm crises and personal family situations related to the loss of farms. Some additional dollars for primary care in community health centers targeted to primary care needs of the rural mental health as well as the rural homeless crisis can be accomplished through the community health center model.

Mr. Chairman, from a local perspective, since most of the small businesses in the area have less than 25 employees, community health centers not only provide high quality, costeffective health care but community health centers also are economic development pieces that strengthen the local economy and its key community status and make them attractive and a healthy workforce to larger and other prospective industries.

With States like Mississippi, that has taken advantage of the Sober and Coble amendments and has expanded eligibility to 185 percent of poverty for high-risk women and infants, along with the expansion of the department of welfare, it is placing additional slots in for our station workers. This expansion will allow each community health center to expand its current employment pool by at least five additional employees.

Mr. Chairman, community health centers are located at the grassroots level that is governed by a community board and is an ideal system and a worthwhile investment strategy to impact on the health status and the economic development of rural America.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Simmons appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Simmons.

Of course, I suppose in communities throughout the Nation, rural communities, the health issue is a real problem. If you could pinpoint three or four things that could be done as far as the Federal Government is concerned, keeping in mind our budget problems, what would you really identify as actions that we should include in any kind of rural development legislation that would really be beneficial throughout the Nation to rural health care?

Mr. SIMMONS. Most communities, counties, States, or whatever, basically qualify for some form of community health center model, a health system. I think a strong health delivery system is an attractive piece in terms of economic development. When industries are looking at relocating into rural areas, the health system, or the transportation system are ideal pieces that they look for as to when they are bringing their employees as well as looking for workers from the area. So I would think strengthening the health center model, and the thing that can be done would be to expand some primary care funds to community health centers.

The other piece would be to look at some of the recommendations under Public Law 95-210, the Rural Health Clinic Act, which will allow for reimbursement on a cost basis for the services provided which will create additional local dollars that will allow them to add additional staff persons and create economic development as well through that process.

Mr. **English**. My hometown used to have 3,500 people. That was back in the 1980 census. We have lost a lot of population since then. I don't have any idea what it is now, but in November we lost our hospital, and the community did rally around, and they passed tax increases and were able to reopen it this spring. That, of course, is a story that is all too familiar, I think, for a lot of rural communities. We are hopeful with the rural health coalition that we can address these problems and hopefully offer some relief.

Mr. **Simmons**. Some of your rural hospitals are in financial binds, and some are closing. Our hospital is in the same situation. We are fortunate to be in an area where there is a regional medical complex that is not over 50 miles away from us, but medical assistance facilities and things where ambulatory care services can be provided to rural residents, I think, would be an enhancement to rural areas. Many of the hospitals are suffering because of in-patient census data, and I certainly think that some of the cases that have been considered that are very costly can be better addressed through an ambulatory care approach where they are getting care and returning to their home environment and certainly being served in a comfortable environment.

Mr. **English**. Thank you, Mr. Simmons. I appreciate your testimony. You have done an excellent job. It will be very beneficial to us.

Our next witness is Dr. David Chicoine, who is head of the department of agricultural economics, the University of Illinois, in Urbana, IL.

Dr. Chicoine, we want to welcome you here today, and, as we have told our other witnesses, if you would care to summarize. First of all, though, I want to recognize Congressman Bruce, who is a former member of this committee, recognized as one of the great friends of rural America and one that we are counting on very heavily as far as rural development is concerned. I guess Congressman Bruce is going to join you. Great.

We appreciate you being here today.

Mr. **Bruce**. I am happy to be here, Mr. Chairman, and especially to thank you for the work and efforts you have done in having these hearings on the state of rural America and to have with us this afternoon Dr. David Chicoine, who works at the University of Illinois. He played a pivotal role in real estate tax reform for Illinois farmers. He has developed a computer simulation of economic development trends. We have used that, and I want to have him talk a little bit about some of the things he has done with that. It also could be used by municipalities to evaluate various economic development ideas, such as a professional building for medical services or a pharmacy.

As the agricultural economics department head at the University of Illinois College of Agriculture, the doctor also represents an unparalleled group of education professionals in rural finance, and that is one of the reasons I asked that he be given the opportunity to talk to this subcommittee and really to meet and express his views to you, Mr. Chairman, who have put together a comprehensive package of bills and package of ideas on economic development and the status of the economy of rural America.

Mr. Chairman, I also have a prepared statement for the record.

Mr. **English**. Without objection, your statement will be placed in the record with the statements from other members at the beginning of the hearing.

Mr. **Bruce**. Thank you, Mr. Chairman. So I am happy to introduce to you the head of our department at the University of Illinois.

Mr. **English**. Thank you very much, Terry.

Dr. Chicoine.

STATEMENT OF DAVID L. CHICOINE, HEAD, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF ILLINOIS

Mr. **Chicoine**. Thank you, Congressman Bruce, Chairman English, and members of the committee.

I am David Chicoine, professor and head of the department of agricultural economics at the University of Illinois, and I congratulate you, Mr. Chairman, as other witnesses have, for calling this series of hearings on rural development, a subject of current and vital importance to the Nation and one which is a real concern to my land grant university.

At the University of Illinois, we share the growing, widespread recognition of the urgent need to restore economic vitality to our Nation's rural areas. We believe, however, that as the Congress and the State legislatures address themselves to the needs of rural America there is great risk that tangible and specifically targeted initiatives may be lost in the near overwhelming weight and breadth of rural development issues.

For that reason, we are specifically pleased that you have requested our response to three specific questions: First, what our specific proposal for rural development would be. Second, what role we would play in the implementation of that proposal. And third, how would the proposal be financed. My statement will be brief and will be directly in response to those three questions.

We propose the formation of a national center for farm and rural business finance research. The center should be an ongoing program of comprehensive intelligence gathering and discipline-based research, investigations, and education concerning the financing of this Nation's farm and rural businesses which are the economic backbone of rural America. The center's program should be national in scope and should address issues concerning the availability of capital and the effective use of that capital in the growth and development of rural America.

I want to emphasize, this is a specific proposal for ongoing research and information that is targeted at the financing of farm and rural businesses and rural local governments.

The goal of the research and the investigations would be to provide continuing understanding of the effective management of capital within firms, financial markets, Government policies for financing farm and rural businesses and economic development, and the performance of public and private capital providers.

Of particular interest will be the interrelationships and performance of capital markets and financial institutions in meeting the credit needs of farm and rural businesses in all of rural America.

The goal of the information and education programs would be to inform and to educate farm and rural business borrowers and their credit providers in the sound use and management of capital in their businesses and to support policy decisionmaking in both the public and private sectors with regard to credit issues.

We at the University of Illinois have observed closely the financial upheaval of the farm sector in the 1980's, and we have considered the impact of those events upon the future of rural America.

To revitalize the economic health of rural America will require the effective functioning of financial markets to provide the essential capital and related services to farm and rural businesses for their growth and development. Yet, for reasons familiar to the members of this subcommittee, there is cause to question whether or not this will occur.

Farm and rural businesses will continue to present unique risks which have important implications for the cost and the availability of financial capital for farm businesses and for those rural nonfarm businesses that are dependent upon the farm economy.

Confidence in rural America remains shaken by uncertain Government policy in the present tight budget environment and the ongoing reevaluation of Government commitment to farm and nonfarm rural support programs.

Concurrently, the traditional providers of capital to U.S. farm and rural businesses are experiencing unprecedented industry turmoil. Bank deregulation hastened the integration of rural financial markets with national and international markets and brought significant interest rate variability.

Commercial banks are experiencing structural changes involving bank holding companies, removal of geographical barriers to lending, interstate banking, expanded services, and the emergence of regional and national lending markets.

As a consequence of changes in tax laws and rural banking, municipal bond markets for rural borrowers have tightened substantially. The Farm Credit System has only begun a financial recovery through significant downsizing of operations, dramatic organizational restructuring, concurrent with growing interest in a broadened scope of lending in rural areas. They, like other credit providers for rural America, are feeling their way in a new and uncertain environment.

Not yet on track, the Federal Farm Mortgage Corporation, or Farmer Mac, holds the potential to significantly change the nature of long-term lending in rural areas. Presently, though, the extent of its impact on the financial industry of rural America can only be imagined. The feasibility of expanding its services to include nonfarm rural financing is already an issue.

As the Federal Government has continued to shift financing programs away from agencies such as FmHA and REA toward the private sector, State governments have responded in a patchwork fashion but with generally increased direct and guaranteed funding programs for credit assistance to farm and rural business firms.

These conditions present major uncertainties about the future course of rural business growth and development from a financial and credit perspective. They compound the urgency of economic and policy issues relative to farm and rural business finance and raise several very key important questions. These questions include: Will financial markets function effectively to provide the essential capital and related services in rural areas? What are the lessons to be learned from the financial trends and impacts of the 1980's, and what can be done so that these lessons are not forgotten? What are the most effective roles for banks, cooperatives, credit unions, community development corporations, the Farm Credit System, Federal and State governments in the provision of adequate credit to farm and rural businesses and rural governments? What are the links between these existing and potential credit providers, and what are the overlaps in their missions? How might their efforts be better coordinated, and in what ways might their internal performance be improved for the betterment of all rural America? How might the limited Federal dollars be best leveraged to facilitate growth and development of farm and rural businesses? How might State and rural loan guarantee programs be made more effective, and how might bankers and borrowers alike be better schooled in the use of these frequently complex programs? Through what programs can farm and rural borrowers be better trained to understand and apply principles of sound financial management to their businesses?

We believe the importance of these questions and the uncertainty of the present environment argue strongly for an ongoing program of information, research, and education, national in scope, focused and equipped to bring tangible yet discipline based responses to these issues and other issues concerning growth and development of rural America from a finance and credit perspective. Our proposal is for the formation of a national center to undertake that ongoing effort.

The proposed national center for farm and rural business finance research, we believe, should reside at a major land grant university with recognized capacity for farm and rural business finance research but also with the capacity to apply that research through delivery of tangible and usable information and programs.

It is at the center that primary research and information program development would occur, but with the participation and contribution of regional support centers situated at other selected institutions nationwide the programs would be delivered. The program would be developed and carried out in coordination with appropriate Federal and State agencies, financial institutions regulators, and rural, farm, and finance industry groups. The delivery of the research findings and the programs would obviously be carried out in cooperation with extension services, SBA, and FmHA offices, local and regional development groups, and the private sector.

We believe the University of Illinois is well suited to host such a center. The University of Illinois has a proven track record for success and delivery of tangible and relevant programs to farm and rural constituencies through broad-based local networks. These programs include examples such as the rural route program and financial management educational programs. Our agricultural law division at Illinois is recognized nationally as an innovator in developing the Illinois Farm Legal Assistance Foundation and the Farm Income Tax Schools which train over 40,000 income tax practitioners in 35 States each year. But, most important, resident at the University of Illinois, as Congressman Bruce has said, is an unparalleled unique and internationally recognized collection of finance and legal scholars eagerly positioned to take on the responsibility of a national center.

Funding the center is proposed to be a three-way partnership involving Federal and State governments and private industry. Initial funding from the Federal Government is needed in an estimated amount of $900,000 to institutionalize the center. The Federal contribution would establish a base upon which an ongoing research and educational enterprise would be built, drawing recurring support from other governmental entities, project activities, and the private sector.

In that regard, we are pleased to note that the Illinois General Assembly is considering an ongoing program of rural finance research at the University of Illinois that could become a part of the national center's support when established.

Mr. Chairman, our proposal responds to a specific yet what we believe a very important facet of rural development, the effectiveness of financial markets to meet the capital needs of farm and rural businesses and the effective use of that capital by those borrowers. We suggest the need is sufficient to justify the expenditure of start-up Federal funds as well as State and private money to fund a dedicated and ongoing widespread program of investigations and research designed to yield timely information on the full set of finance and credit issues and forces that are so essential to rural economic vitality. We believe that the growth and development of farm and rural businesses cannot occur without adequate and efficiently employed capital.

Mr. Chairman, again, I appreciate this opportunity to appear and to testify, and I would be pleased to respond to any of your questions.

[The prepared statement of Mr. Chicoine appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Dr. Chicoine.

I wholeheartedly agree with you that we need some kind of national center where we can do research and certainly where information would be available.

As far as dissemination of information, do you have any thoughts with regard to the use of the Extension Service?

Mr. CHICOINE. I think the Extension Service has the capacity to be involved in the delivery of programs and research findings that would be developed at such a center, but it should not be viewed as the only mechanism of delivery. I think this is why it is important to have interaction and linkages in the development of research agenda and the carrying out of those activities with the financial industry and the private sector because, in fact, I think they provide another avenue as well as other organizations that may be outside the Extension Service in which to effectively deliver to clients the results of the research and programs that are developed.

Mr. ENGLISH. We have heard from a number of representatives from financial institutions and the financial community that basically tell us that in order to provide the kind of financing that is probably going to be necessary in rural America we are going to have to have guaranteed loans. Do you agree?

Mr. CHICOINE. Let me say that if there is a growth sector within the financial industry it has been loan guarantees over the period of the 1980's. We have seen this expansion not only at the Federal level but at the State level. Much of that has been focused at trying to enhance the competitive environment for economic growth and development.

I think loan guarantees do have a role to play, but I think they have to be evaluated as to what their function actually is: How best can we position loan guarantees to, in fact, enhance and contribute directly to economic growth and development as opposed to just providing a backstop for credit institutions or to maintain the status quo? Those are tough questions to have answers to, but I think that is the context within which we can see the positioning of loan guarantees as an economic development tool.

Mr. ENGLISH. Where else do we get the money? The bank examiner is not going to let you lend money to a rural community, they are going to certainly categorize those loans as being risky, and there is no real increase in Federal money that is likely to be available in substantial amounts like what we would be talking about. Is there really any other way that we have got to go? Is there any other option that we have available to us?

Mr. CHICOINE. That is a good question, and I am not aware of any other options at this point in time. I think loan guarantees will continue to play a very vital role in shifting risks and lowering the cost of capital that could then enhance development of both farm and nonfarm businesses in rural areas.

Mr. ENGLISH. Dr. Chicoine, you have given us some excellent testimony and some good ideas, and we appreciate that. It is a real contribution you have made to our hearing today.

Mr. CHICOINE. Thank you, sir.

Mr. ENGLISH. And certainly Congressman Bruce is always welcome at the subcommittee. We are delighted that he could join you.

Mr. BRUCE. We are happy that he was able to share his testimony and emphasize again the fact that we have got to focus in on some areas, particularly financing. I have just been working the last couple of days with one of the major utility companies in my district, and they point out that in the smaller communities financing and the handling of financing and how to bundle programs will become an increasing problem not only for the agribusiness but the small businessman on the streets.

Mr. ENGLISH. Yes, I'm afraid that is true. We will be looking forward to working with you. Thank you very much. I appreciate it.

Mr. BRUCE. Thank you, Mr. Chairman.

Mr. ENGLISH. We will recess, subject to the call of the Chair.

[Whereupon, at 12:45 p.m., the subcommittee was recessed, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

NATIONAL ASSOCIATION of COUNTIES

440 First St. NW, Washington, DC 20001
202/393-6226

STATEMENT OF

JOHN KELLY

SUPERVISOR, ESSEX COUNTY, NEW YORK

AND

CHAIRMAN, NACo AGRICULTURE AND RURAL AFFAIRS

POLICY STEERING COMMITTEE

BEFORE

THE SUBCOMMITTEE ON CONSERVATION, CREDIT AND

RURAL DEVELOPMENT

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 22, 1989
WASHINGTON, DC

I AM JOHN KELLY, SUPERVISOR, ESSEX COUNTY, NEW YORK AND CHAIRMAN OF THE AGRICULTURE AND RURAL AFFAIRS POLICY STEERING COMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES (NACo)*. I AM ACCOMPANIED BY RALPH TABOR, LEGISLATIVE DIRECTOR OF NACo, AND THE PRINCIPLE STAFF PERSON FOR OUR STEERING COMMITTEE.

MR. CHAIRMAN, WE ARE PLEASED THAT YOUR SUBCOMMITTEE IS HOLDING THESE HEARINGS ON RURAL DEVELOPMENT AND WE ARE HOPEFUL THAT IT WILL LEAD TO ACTION ON A RURAL DEVELOPMENT BILL THIS SESSION. WE ARE APPRECIATIVE OF THE OPPORTUNITY TO PRESENT OUR VIEWS ON RURAL DEVELOPMENT LEGISLATION.

IT MAY OR MAY NOT BE SURPRISING TO SOME TO HAVE A NEW YORK COUNTY SUPERVISOR TESTIFY ON THE NEED FOR RURAL DEVELOPMENT. WE FREQUENTLY ARE THOUGHT OF AS A VERY URBANIZED STATE BUT NEW YORK HAS OVER 3 MILLION PEOPLE LIVING IN RURAL AREAS. MY OWN COUNTY, ESSEX COUNTY HAS 36,000 PEOPLE AND IS PREDOMINATELY RURAL WITH ALMOST 90 PERCENT LIVING IN TOWNS OR VILLAGES OF LESS THAN 2,500 PEOPLE. ESSEX COUNTY IS LOCATED IN THE HEART OF THE ADIRONDACKS ON LAKE CHAMPLAIN IN UPSTATE NEW YORK.

ESSEX COUNTY IS AN ECONOMICALLY DEPRESSED COUNTY. OUR UNEMPLOYMENT RUNS AS HIGH AS 18 PERCENT DURING PARTS OF THE YEAR. SINCE TOURISM IS OUR MAJOR INDUSTRY, UNEMPLOYMENT RATES GO DOWN IN THE SUMMER AND WINTER MONTHS BUT RARELY DROPS BELOW 8-9

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* THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

PERCENT. ABOUT ONE THIRD OF OUR POPULATION RECEIVES SOCIAL SERVICES BENEFITS OF ONE TYPE OR ANOTHER, WHICH AMOUNTS TO MORE THAN 50 PERCENT OF OUR $37 MILLION ANNUAL COUNTY BUDGET.

WHILE WE HAVE SOME DAIRY FARMING IN ESSEX COUNTY, AGRICULTURE IS NOT A DOMINANT PART OF OUR ECONOMY. IN THIS REGARD, WE ARE TYPICAL OF MORE THAN TWO-THIRDS OF THE RURAL COUNTIES IN THIS COUNTRY. FEDERAL ASSISTANCE FOR AGRICULTURE WILL NOT HELP MANY OF OUR CITIZENS.

THE LARGEST INDUSTRY IN OUR COUNTY IS THE INTERNATIONAL PAPER COMPANY WHICH EMPLOYS NEARLY 1,000 PEOPLE. THE RELATED WOOD INDUSTRY SUPPORTING PAPER MAKING AND WOOD PRODUCTS EMPLOYS MANY MORE OF OUR PEOPLE AT LOW LEVEL PAY AND HIGH LEVEL RISK JOBS.

INFRASTRUCTURE NEEDS

THE MAJOR PROBLEM FACING RURAL COUNTIES IS THE LACK OF FUNDS TO MEET OUR INFRASTRUCTURE NEEDS. THESE NEEDS INCLUDE HIGHWAY AND BRIDGE IMPROVEMENTS, SEWER AND WATER SERVICE, JAIL FACILITIES AND SOLID WASTE DISPOSAL. OUR LOCAL PROPERTY TAX BASE IS INSUFFICIENT TO MEET THESE NEEDS AND WITH THE LOSS OF GENERAL REVENUE SHARING, THERE IS LITTLE FEDERAL OR STATE ASSISTANCE TO HELP US. THE PROBLEM IS COMPOUNDED BY FEDERAL LEGISLATION AND REGULATIONS IMPOSING NEW REQUIREMENTS FOR DRINKING WATER AND SOLID WASTE DISPOSAL. ADDITIONAL STATE RULES AND REGULATIONS HAVE ADDED TO THE BURDEN. NEITHER THE FEDERAL OR STATE GOVERNMENTS ARE PROVIDING ANY FUNDS TO CARRY OUT THESE MANDATES.

THE NEED FOR HIGHWAY IMPROVEMENTS AND REPLACEMENT OF UNSAFE BRIDGES IS PARTICULARLY ACUTE. SCHOOL BUSES AND EMERGENCY

VEHICLES CAN NO LONGER CROSS SOME OF OUR BRIDGES. THE PROBLEM EVEN INCLUDES MAJOR ARTERIES AFFECTING INTERSTATE COMMERCE. THE LAKE CHAMPLAIN BRIDGE BETWEEN NEW YORK AND VERMONT HAS BEEN DECLARED UNSAFE FOR TRUCK TRAFFIC. THIS MEANS OUR DAIRY FARMERS, LOG TRUCKS AND DELIVERY TRUCKS ARE DRIVING AN ADDITIONAL 90 MILES ONE WAY, WHICH IS ADDING A TREMENDOUS COST AND DEPLETING EXISTING MARGINAL PROFITS FOR OUR AREA FARMERS AND BUSINESS PEOPLE.

CONGRESS WILL BEGIN CONSIDERATION NEXT YEAR OF LEGISLATION REAUTHORIZING THE SURFACE TRANSPORTATION ACT. WE STRONGLY URGE THIS COMMITTEE TO BECOME INVOLVED IN THIS LEGISLATION AND TO WORK WITH THE PUBLIC WORKS COMMITTEE IN DESIGNING AND FUNDING PROGRAMS TO HELP MEET RURAL COUNTY ROAD AND BRIDGE NEEDS. MORE FUNDING PARTICULARLY IS NEEDED FOR THE FEDERAL AID SECONDARY SYSTEM AND THE OFF SYSTEM BRIDGE PROGRAM.

THE SAFE DRINKING WATER ACT OF 1986 IS IMPACTING LOCAL GOVERNMENTS WAY BEYOND THEIR FISCAL MEANS. RESIDENTS WHO NOW PAY LITTLE FOR PUBLIC WATER WILL BE PAYING $300 TO $400 A YEAR FOR WATER. I URGE YOU TO CONSIDER SOME TYPE OF TIMELY GRANT ASSISTANCE FOR ANY RURAL WATER SYSTEM WITH OVER 25 USERS SO THAT COMPLIANCE CAN BE REASONABLY ATTAINED BY 1992.

THE MOST EXPENSIVE PROBLEM FACING RURAL AMERICA TODAY IS SOLID WASTE. THE PREFERRED AND APPROVED METHODS OF HANDLING SOLID WASTE ARE VERY, VERY EXPENSIVE. FEDERAL AND STATE POLICY ON SOLID WASTE WILL COST RURAL TAXPAYERS BILLIONS OF DOLLARS TO COMPLY. IN ESSEX COUNTY OUR REAL PROPERTY TAXES WILL MORE THAN DOUBLE ONCE WE HAVE RESOLVED THE PROBLEM. I URGE THIS COMMITTEE

TO NOT ONLY SEEK ASSISTANCE IN RESOLVING THIS PROBLEM, BUT TO ALSO SEEK WAYS TO STABILIZE THE RULES AND REGULATIONS SO THAT ANY APPROVED SOLUTION IS NOT ANTIQUATED BEFORE IT HAS FINISHED ITS LIFE EXPECTANCY.

WE WOULD URGE THAT WATER AND SEWER LOAN AND GRANT PROGRAMS ADMINISTERED BY THE FARMERS HOME ADMINISTRATION BE EXPANDED TO HELP RURAL COUNTIES MEET THESE EXPENSIVE ENVIRONMENTAL REQUIREMENTS. WE DO NOT SEE ANY ASSISTANCE COMING FROM THE ENVIRONMENTAL PROTECTION AGENCY. FRANKLY, WE WOULD PREFER DEALING WITH THE FARMERS HOME ADMINISTRATION WHICH ALREADY IS ESTABLISHED IN MOST COUNTIES AND ARE FAMILIAR WITH OUR PROBLEMS.

RURAL HEALTH CARE

ONE OF THE MAJOR PROBLEMS FACING RURAL COUNTIES ALL OVER THE UNITED STATES IS MAINTAINING ACCESS TO HEALTH CARE. THE PROBLEM OF CLOSING HOSPITALS IN RURAL COUNTIES AND THE DIFFICULTY OF RETAINING PHYSICIANS IS NOW WELL DOCUMENTED. IT IS GETTING RECOGNITION IN THE CONGRESS BUT UNLESS THERE IS ACTION THIS YEAR THE PROBLEM WILL RAPIDLY GET WORSE.

OBVIOUSLY, OUR MAJOR PROBLEM IS THAT REIMBURSEMENT RATES FOR RURAL HOSPITALS AND PHYSICIANS UNDER THE MEDICARE PROGRAM ARE NOT ADEQUATE TO MEET COSTS. SEVERAL BILLS INTRODUCED IN THIS CONGRESS ADDRESS THIS ISSUE. LEGISLATION (HR 2327) INTRODUCED BY REPRESENTATIVE DORGAN WOULD ELIMINATE THE DIFFERENTIAL PAYMENTS BETWEEN URBAN AND RURAL HOSPITALS OVER A FOUR YEAR PERIOD. SPECIAL PAYMENTS WOULD BE MADE TO SMALLER RURAL HOSPITALS WHILE THE NEW PAYMENT SCHEDULE IS PHASED IN. NACo IS URGING A SPEEDIER ELIMINATION OF THE URBAN-RURAL DIFFERENTIAL.

A NUMBER OF OTHER BILLS HAVE BEEN INTRODUCED WHICH WOULD IMPROVE RURAL HEALTH CARE. NACo IS SUPPORTING THE ENTIRE PACKAGE OF BILLS INTRODUCED BY THE HOUSE RURAL HEALTH CARE COALITION. WE WANT TO COMMEND YOU MR. CHAIRMAN AND OTHER MEMBERS OF THE SUBCOMMITTEE FOR YOUR LEADERSHIP AND ACTIVE INVOLVEMENT IN THE COALITION. WE STRONGLY URGE SPEEDY ACTION ON THESE BILLS DURING THIS SESSION AND TO INCLUDE THE ENTIRE LEGISLATIVE PACKAGE IN THE BUDGET RECONCILIATION BILL.

PENDING LEGISLATION

LAST MONTH NACo TESTIFIED BEFORE THE SENATE RURAL DEVELOPMENT SUBCOMMITTEE ON THE RURAL DEVELOPMENT PARTNERSHIP ACT (S.1036). WE GENERALLY SUPPORTED THE BILL BECAUSE WE FEEL IT IS A MODEST FIRST STEP AND IS WITHIN THE SPENDING GUIDELINES SET BY THE CONGRESSIONALLY PASSED FIRST BUDGET RESOLUTION.

IF WE HAD OUR CHOICE, WE WOULD PREFER MORE FUNDING FOR ESTABLISHED INFRASTRUCTURE PROGRAMS SUCH AS THE FARMER HOME ADMINISTRATION'S WATER AND SEWER PROGRAMS. WE ALSO WOULD LIKE TO SEE SOME EXPANSION OF THESE PROGRAMS TO COVER RELATED RURAL COUNTY NEEDS RESULTING FROM THE SAFE DRINKING ACT.

WE ARE UNSURE ABOUT SHIFTING RESPONSIBILITY WITHIN USDA TO THE RURAL ELECTRIFICATION ADMINISTRATION FOR A WIDE RANGE OF ECONOMIC DEVELOPMENT PROGRAMS. THE AGENCY HAS NOT HAD MUCH EXPERIENCE IN DEVELOPING AND ADMINISTERING SUCH PROGRAMS. AT THE SAME TIME WE STRONGLY SUPPORT AN ENHANCED ROLE FOR LOCAL RURAL ELECTRIC COOPERATIVES IN WORKING WITH COUNTY GOVERNMENTS, BUSINESSES, CHAMBERS OF COMMERCE AND FARM ORGANIZATIONS TO DEVELOP MORE JOBS. THERE ARE A NUMBER OF COMMENDABLE PROVISIONS IN THE SENATE BILL THAT WOULD GIVE RURAL ELECTRIC COOPS MORE RESOURCES AND FLEXIBILITY IN THE USE OF LOAN FUNDS FOR ECONOMIC DEVELOPMENT PROJECTS. AUTHORIZING RURAL ELECTRIC COOPS TO FUND AND DEVELOP INCUBATORS FOR SMALL BUSINESS IN RURAL COUNTIES MAKES A LOT OF SENSE. THE PROPOSED FUNDING OF $10 MILLION IS MODEST BUT IT COULD PROVIDE A NUMBER OF PILOT PROJECTS WHICH COULD BE USEFUL DEMONSTRATIONS OF BUSINESS INCUBATORS IN RURAL COUNTIES.

THE CENTRAL CORE OF THE SENATE BILL IS PROVIDING MORE ACCESS TO CREDIT FOR SMALL BUSINESSES THROUGH REVOLVING LOAN FUNDS AND RISK POOLS FOR LENDING INSTITUTIONS. WITH FEDERAL, STATE AND LOCAL RESOURCES BEING SO LIMITED, WE AGREE WITH THIS APPROACH AT THIS TIME. MANY OF OUR COUNTIES ARE INVOLVED EITHER DIRECTLY OR THROUGH A REGIONAL DEVELOPMENT ORGANIZATION IN REVOLVING LOAN FUNDS AND THEY ARE VERY SUCCESSFUL. IT IS A PROVEN WAY TO LEVERAGE PRIVATE FUNDS AND TO SPREAD THE RISK. EVEN 10 PERCENT OR 20 PERCENT PARTICIPATION FROM A REVOLVING LOAN FUND CAN MAKE THE DIFFERENCE IN A SMALL BUSINESS GETTING A LOAN. WHERE LENDING INSTITUTIONS ONLY WANT TO LEND ON CAPITAL NEEDS, THE REVOLVING LOAN FUND CAN PROVIDE SHORT TERM OPERATING FUNDS DURING THE START UP OF A NEW BUSINESS. THIS MAY BE CRITICAL IN GETTING A NEW BUSINESS OFF THE GROUND. I PERSONALLY THINK THAT COVERING SHORT TERM OPERATING COSTS FOR EXISTING BUSINESSES MAKES ECONOMIC SENSE IN MANY INSTANCES. WE SHOULD PAY AS MUCH ATTENTION TO RETAINING EXISTING SMALL BUSINESSES AS TO DEVELOPING NEW ONES.

WE WOULD LIKE TO COMMEND ANOTHER PROVISION IN THE SENATE BILL ALLOWING STATES AND COUNTIES TO HIRE ECONOMIC DEVELOPMENT SPECIALISTS ON THEIR COOPERATIVE EXTENSION STAFFS. FEDERAL FUNDING FOR 60 PERCENT OF THE SALARIES OF SUCH PERSONNEL WOULD HELP US IN EMPLOYING AND IN SOME CASES RETAINING THIS TYPE OF EXPERTISE. STATE LEGISLATURES AND COUNTY BOARDS OF SUPERVISORS HAVE MANY CONFLICTING DEMANDS AT BUDGET TIME AND LESS AND LESS RESOURCES. UNFORTUNATELY, STATE AND LOCAL BUDGETS FOR THE COOPERATIVE EXTENSION SERVICE HAVE HAD TO BE TRIMMED AND PROGRAMS OTHER THAN AGRICULTURAL PRODUCTIVITY AND RESEARCH ARE OFTEN THE FIRST TO BE CUT. WE NEED THIS FEDERAL RE-EMPHASIS ON RURAL DEVELOPMENT.

WE ARE NOT SUGGESTING THAT EVERY COUNTY EMPLOY A RURAL DEVELOPMENT SPECIALIST ON THEIR EXTENSION STAFF. IT WOULD MAKE SENSE IN MANY CASES FOR COUNTIES TO SHARE SUCH A SPECIALIST. WE WOULD LIKE TO SEE A CLOSER WORKING RELATIONSHIP BETWEEN EXTENSION AND REGIONAL DEVELOPMENT AND PLANNING ORGANIZATIONS. WE WOULD RECOMMEND THAT SUCH MULTI-COUNTY AGENCIES ALSO BE AUTHORIZED TO HAVE EXTENSION STAFF DETAILED TO THEM AND BE ELIGIBLE FOR SIMILAR COST SHARING ARRANGEMENTS.

AS YOU KNOW THE SENATE AGRICULTURE COMMITTEE REPORTED S.1036 LAST WEEK. THE LEGISLATION HAS A HIGH PRIORITY AND IS EXPECTED TO GO TO THE SENATE FLOOR WITHIN THE NEXT MONTH. AT THE CONCLUSION OF YOUR HEARINGS, WE WOULD HOPE THAT YOUR SUBCOMMITTEE WOULD MOVE EXPEDITIOUSLY TO DEVELOP A BILL AND THAT MANY OF THE SENATE PROVISIONS WOULD BE INCLUDED. WE DO NOT WANT TO ARGUE

ABOUT LEGISLATIVE STRATEGIES BUT WE BELIEVE THAT CURRENTLY THERE IS A STRONG MOMENTUM FOR ENACTING RURAL DEVELOPMENT LEGISLATION. WE DO NOT WANT TO LOSE THIS MOMENTUM BY WAITING UNTIL NEXT YEAR.

MR. CHAIRMAN, YOU HAD ASKED US TO ADDRESS SEVERAL QUESTIONS IN OUR TESTIMONY. ONE OF THE QUESTIONS INVOLVED OUR PARTICIPATION IN OUR RECOMMENDATIONS FOR LEGISLATION. AS COUNTY GOVERNMENTS, WE HAVE THE RESPONSIBILITY FOR BUILDING AND MAINTAINING ROADS, WATER AND SEWER SYSTEMS AND SOLID WASTE FACILITIES. WE ALSO HAVE RESPONSIBILITY FOR HEALTH AND SOCIAL SERVICES. ECONOMIC DEVELOPMENT IS DIRECTLY RELATED TO HOW WELL WE PROVIDE THESE SERVICES. AS ELECTED OFFICIALS WE ARE EXPECTED TO PROVIDE LEADERSHIP IN BUILDING A COALITION OF THE BUSINESS COMMUNITY, UTILITIES, ELECTRIC COOPS, COOPERATIVE EXTENSION, AND OUR COLLEGES TO WORK TOGETHER TO RETAIN AND EXPAND JOBS IN OUR COMMUNITIES. COUNTIES WILL BE INVOLVED DIRECTLY IN ALMOST ANY PROPOSED RURAL DEVELOPMENT LEGISLATION.

YOU ALSO ASKED US TO ADDRESS THE QUESTION OF HOW TO PAY FOR OUR RECOMMENDED PROPOSALS. WE ARE REALISTIC ABOUT THE FEDERAL DEFICIT AND THE COMPETING PRESSURES ON CONGRESS TO FUND NEW PROGRAMS. OUR PROPOSALS ARE MODEST AND WOULD NOT EXCEED THE RECOMMENDED $300 MILLION CONTAINED IN THE FIRST BUDGET RESOLUTION FOR A RURAL DEVELOPMENT INITIATIVE. CONGRESS DECIDED THIS YEAR TO MAKE RURAL DEVELOPMENT A PRIORITY ALONG WITH EDUCATION, RESEARCH AND DEVELOPMENT, CHILD CARE AND SPACE PROGRAMS. WE DON'T QUESTION WHERE THE FUNDS WILL COME FROM TO PAY FOR INCREASED SPENDING IN EDUCATION OR CHILD CARE OR SPACE PROGRAMS.

IF WE CAN AFFORD THESE PROGRAMS, WE ALSO CAN AFFORD A MODEST INITIATIVE FOR OUR RURAL AREAS.

MR. CHAIRMAN, WE APPRECIATE THE OPPORTUNITY TO PRESENT OUR VIEWS. WE WANT TO WORK WITH YOU IN DEVELOPING A BILL TO HELP OUR DEPRESSED RURAL COUNTIES. WE URGE YOU TO MOVE AS QUICKLY AS YOU CAN ON REPORTING A BILL AND GETTING IT TO THE FLOOR DURING THIS SESSION. AS WE STATED BEFORE, THERE IS MOMENTUM FOR RURAL DEVELOPMENT LEGISLATION AND WE NEED TO TAKE ADVANTAGE OF THIS WINDOW OF OPPORTUNITY.

MR. CHAIRMAN, I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

agriculture
MOVEMENT
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America Needs Parity!

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Testimony of

DAVID SENTER, WASHINGTON DIRECTOR

AMERICAN AGRICULTURE MOVEMENT

Before the

Subcommittee on Conservation, Credit, and Rural Development

House Committee on Agriculture

June 22, 1989

Good morning, Mr. Chairman. I am David Senter of the American Agriculture Movement (AAM). I appreciate the invitation to be here this morning to testify on rural development.

AAM's beliefs on rural development can be boiled down to two basic ideas. First, the quickest, surest way to revitalize Rural America is to restore profitablility to agriculture. Second, there is no crystal ball in Washington, D.C. that will enable us to pass one rural development program to meet everyone's needs.

If rural economic development is to be successful in this or any other country, it must come from the grassroots. The people themselves are in the best position to know their problems, the talent they have to address those problems, and where they might need help from the government. Particularly given current federal budget pressures, we would do much better to let rural communities tell us what they need than to spend two-thirds of our limited financial resources setting up a new federal bureaucracy to decide how the remaining one-third should be used.

AAM proposes using the county agents to facilitate local meetings with other groups already in rural communities. Let's bring together county agents, FmHA county supervisors, rural electric cooperative leaders, Farm Credit System association board members, the local Chamber of Commerce, the mayor, the water district, the school board, any economic development groups already in existence, and anyone else who is committed to a stronger future for their own community -- and let them decide what will work for them. The county agents should have primary responsibility for reporting back to USDA with the consensus on needs for their areas. USDA is already an integral part of rural communities. It makes sense to use this existing network for collecting information.

USDA should be required to report back to Congress in a timely fashion with a compilation of where federal dollars can do the most good. Perhaps more modern telephone lines would attract new businesses or perhaps the biggest problem is a lack of sewers. Perhaps the area is struggling with a groundwater contamination problem that has discouraged new residents. The variety and complexity of roadblocks to rural development are unlimited, but so are the possible sources of ideas and leadership.

Again, without an accurate assessment of what is needed out in the country, we cannot sit in Washington, D.C. and know that we are making the best distribution of available money for such things as business and industry loans, sewer and water loans, rural housing, rural electric and telephone loans, community centers, small business incubator grants, new schools, upgraded hospital facilities and wherever else the federal government can and should play a role. There are many good ideas already on the table, Mr. Chairman. Probably all of them would be useful in some places. But, AAM urges that we diagnose the different diseases before we administer the cure.

Attached to my testimony are the responses to some of the questions included in a survey done by our Kansas chapter. I'm not claiming that this is a highly scientific experiment, but the farmers who responded from 38 different counties in Kansas, Oklahoma, and Colorado had not bought a single new farm truck since 1979. While 31 of the respondents bought new combines in the 6 years from 1976 through 1982, from 1983 through last month only 8 had bought new combines. New tractor purchases went from 41 to 17 in the same time period. These numbers are not shocking to us, and they probably are not shocking to the local businesses trying to stay afloat in those rural communities.

Sales of automobiles and pick-up trucks were much steadier over the last 12 years than sales of farm equipment. We believe there are two explanations for this. First, the government spent more money on farm programs in the last 12 years -- mostly in the form of deficiency payments -- than ever before. Second, farmers have needed reliable transportation to town, where they have competed with non-farm laborers for scarce jobs.

If farmers were able to recover prices from the marketplace that covered their production costs, they wouldn't have to work a 40-hour week in town to maintain the privilege of working another 60-hour week on the farm. They would buy new equipment from local dealers. And, they could invest in their local schools and hospitals and participate in the development efforts of their rural communities.

Thank you again for the chance to present our point of view. I would be happy to answer any questions you might have.

1989 FARM QUESTIONNAIRE

State____________________ County______________________

CROPS GROWN (Acres)
______Wheat ______Milo ______Corn ______Soybeans ______Other (Specify)

LIVESTOCK ______Cattle ______Hogs ______Other (Specify)

SHOULD COMMODITY LOAN RATES BE:
______ Raised ______Lowered ______Same as present

SHOULD TARGET PRICES BE:
______ Raised ______Lowered ______Same as present

Should Crop Insurance be manditory for those participating in Farm Program? __Yes __No

Do you favor Cross-Compliance in Farm Program? ____Yes ____No

Are you planning to participate in Farm Programs this year? ____Yes ____No

Are you participating in CRP? ____Yes ____No

If No, would you participate if payments per acre were higher? ____Yes ____No

Are you presently participating in the CCC Commodity Loan Program? ____Yes ____No

If No, would you participate if loan rates were higher? ____Yes ____No

Do you favor reducing the deficiency payment by increasing the loan rate ________ or reducing the target price? __________ (Check one)

Would you support stronger laws to protect groundwater from chemical contamination?
______ Yes ______No

Should land taken out of production to prevent groundwater contamination be placed in a long term CRP Program? ______Yes ______No

Would you support a Farmer Referendum to determine program requirements? __Yes __No

Do you favor a continuation of the present export enhancement program? ____Yes ____No

Do you favor a continuation of the present Farmbill for at least one more year?___Yes__No

Do you favor seperating, (decoupling) program payments from the production of commodities? ______Yes ______No

Do you favor reinstatment of the investment tax credit and income tax averaging?
______Yes ______No

Do you favor restrictions on state corporate farming? ______Yes ______No

Do you favor increasing excise tax on tires, batteries, tabacco, gasoline, etc.? ___Yes __No

List the year of your newest: Tractor____ Combine____ Pickup____Grain Truck____ Auto___

When did you last contact your state representative?
____3 mo. ___6 mo. ___over one year ___Never

When did you last contact your United States Congressman?
____3 mo. ___6 mo. ___over one year ____Never

Are you a member of any of the following Farm Organizations?
____NFO ____Farmers Union ____Farm Bureau ____AAM ____Other

THANK YOU!

SUMMARY OY 1989 FARM QUESTIONNAIRE

Prepared by: AAM of Kansas Inc.

Jim Rice
RR. 2 Box 98
Liberal, Kansas 67901

JUNE 3, 1989

States involved ---- Kansas, Oklahoma, and Colorado

Counties -- Kansas 31 -- Okla. 3 -- Colo. 4

LOAN RATES
74% favored increase
14% favored the same
1% lower

TARGET PRICE
74% favored increase
15% favored same
1% lower

MANDATORY CROP INSURANCE
5% YES 95% NO

FARM PROGRAM CROSS COMPLIANCE
59% YES 40% NO

FARM PROGRAM PARTICIPATION
98% YES 2% NO

CRP PARTICIPATION
13% YES 84% NO

CRP PARTICIPATE IF PAYMENTS WERE HIGHER
77% YES 23% NO

PARTICIPATION IN CCC LOAN PROGRAM
20% YES 74% NO

CCC PARTICIPATION WITH HIGHER LOAN RATES
83% YES 16% NO

FAVOR REDUCTION OF DEFICIENCY PAYMENT BUY:

LAON RATE INCREASE	TARGET PRICE REDUCTION
80%	15%

STRONGER GROUNDWATER PROTECTION LAWS
77% YES 21% NO

FAVOR LONG TERM CRP TO PREVENT GROUNDWATER CONTAMINATION
79% YES 21% NO

FARM REFERENDUM TO DETERMINE PROGRAM REQUIREMENTS
80% YES 18% NO

CONTINUATION OF EXPORT ENHANCEMENT PROGRAM
81% YES 17% NO

CONTINUATION OF PRESENT FARM BILL
80% YES 18% NO

SEPERATING PAYMENTS FROM PRODUCTION (DECOUPLING)
41% YES 53% NO

REINSTATEMENT OF TAX CREDIT AND TAX AVERAGING
95% YES 4% NO

RESTRICTIONS ON CORPORATE FARMING
83% YES 15% NO

EXCISE TAX INCREASE
-1% YES 98% NO

LAST CONTACT WITH U.S. CONGRESSMAN

3 MO.	6 MO.	OVER 1 YR.	NEVER
46%	11%	28%	12%

LAST CONTACT WITH STATE REPRESENTATIVE

3 MO.	6 MO.	OVER 1 YR.	NEVER
37%	12%	23%	25%

FARM ORGANIZATIONS

NFO	F. UNION	F.BUREAU	AAM	OTHER	NONE
-1%	6 %	30%	35%	10%	18%

THE FOLLOWING IS THE YEAR AND TYPE OF EQUIPMENT OWNED

YR.	TRAC.	COMB.	PK.	TRK.	AUTO
46				1	
49				2	
52				2	
53				3	
58				1	
60		2		1	
61		1			
62				1	
63				1	
64		1			
65	1			2	
66	1			1	
67			1	2	
68	1	2		4	
69		1		1	
70	2	1	1	4	
71	2			1	
72		2	2	7	1
73	1	4	2		2
74	7	8	2	12	2
75	2	4	4	8	
76	7	5	3	6	1
77	2	2	3	3	1
78	4	6	1	5	2
79 *	10	7	6	2 **	6
80	9	6	5		7
81	2	3	5		3
82	7	2	4		4
83	3	3	4		8
84	3	1	5		5
85	3	1	5		7
86	2		7		11
87	2	1	4		6
88	2	2	6		7
89 ***	2		2		

* CASH PRICE OF WHEAT JAN. 1979 $4.21 BU. MILO $5.20 CWT
*** CASH PRICE OF WHEAT JAN. 1989 $3.58 BU. MILO $4.43 CWT
** NO FARM TRUCKS REPORTED AFTER 1979
note - prices Liberal Kansas

YEARS OF 1974 THRU 1982 -VS- 1983 THRU MAY 1989

50 TRACTORS - VS - 17
43 COMBINES - VS - 8
33 PICKUPS - VS - 33
36 TRUCKS - VS - 0
26 AUTOS - VS - 44

NATIONAL
FARMERS
ORGANIZATION

Subcommittee on Conservation,
Credit, and Rural Development
Committee on Agriculture
U.S. House of Representatives

Statement of Charles L. Frazier
National Farmers Organization
June 22, 1989

RURAL DEVELOPMENT

Mr. Chairman and members of the Committee, we appreciate the opportunity to appear in this series of hearings designed to identify opportunities for improvement in the economic and social infrastructure of rural America.

In preparation for this appearance, I have consulted with our own officers in the National Farmers Organization and an informal committee consisting of a farmer, a local banker and a businessman, all based in rural communities in the Middle West. They provided more hard questions than answers about our national policies but, nevertheless, their ideas stem directly from rural involvement and past experience with government.

Since the National Farmers Organization is broadly based with members ranging through cash crops, dairying and livestock production, our leadership is strongly committed to an improved economy at the local level. We have become quite concerned with the persistent migration of our people from the rural areas to the inner cities in recent years. Rightly or wrongly, we associate that migration with the deterioration in the quality of life in rural areas and the resulting accumulation of national problems in education, housing, transportation, health maintenance and the drug problem in the cities.

Those problems have accumulated at an alarming rate. We believe any well organized national effort to reverse that population flow is clearly well justified. When costs are considered, we contend that a large number of the American people who are in need may be provided jobs, opportunities and security at less cost in the rural setting than in the inner cities. It is in the national interest to reverse the economic down trend in rural America.

Initially, we must change the public perception of the opportunities that may be created in the rural countryside. In many localities, as the members of this Committee will very well understand, we have lost local banks, small business concerns and about a third of our independent farm family operators. Churches, schools and other institutions that are highly dependent on a healthy local economy have encountered great difficulty as a result of the economic fallout experienced over the last few years.

Local Support and Communication

There are two challenging aspects of this rural development program. It is essential to recognize and deal with both issues if we are to be successful in many areas.

Any substantial accomplishment has a chance of success only if it has broad based local support. In addition to its economic significance, a new proposal should be acceptable in a social and environmental sense. This means a great deal of work must be done with a number of organizations. Motivators will be required.

The communications industry is currently involved in a number of changes that are revolutionary in nature and quite extensive. Satellite communication and the evolving influence of computer technology promise many benefits for those who are in position to use them. Perhaps the sad showing of education in rural areas, compared to the urban setting, can be improved if the school systems are supported by a stronger economy and some advanced communications methods.

Any rural development of consequence will probably be dependent upon such factors as financing, an adequate water supply and a good road system. In final analysis, however, we urge that everyone concerned give attention to the need for wide local support among the people and the urgency of using the developing potential of modern communication in the management of any new or revitalized commercial activity. This also suggests a means of moving the whole rural development concept with a minimum use of time and travel on the part of those responsible for the administration of a new rural development program.

Our recommendations, therefore, consist of two actions to be taken at the national level - one dealing with organization of the effort in the near future and the second with farm program policy to be handled in a farm bill in early 1990.

Organization

Pursuant to some of the War Powers Authority set up by Congress and the Executive Branch in World War II, the Secretary of Agriculture created War Boards at the county level to deal directly with the public under the general direction of a similar board at the State level. The farmer-elected head of the county Agricultural Stabilization and Conservation Committee (AAA at that time and later the PMA) was designated chairman and the ranking persons in charge of the other agricultural agencies were members. These were the top persons in local offices of the FmHA, SCS and the Extension Service. Working relationships were established with rationing authorities and draft boards.

If memory serves correctly, the War Board was authorized and directed to work with other federal authorities, State agencies and business establishments with minimum detailed supervision. They had the unpleasant responsibility to deal with rationing of fuel and farm equipment, deferments from the draft and administering goals of increased production of certain crops needed in the war effort. It was a matter of commitment of resources to meet certain production goals of vital public concern. The Agency heads at the State level directed the action and furnished technical material but most decisions were locally based.

It is recommended that similar authority be established to identify and advance worthwhile projects in rural development. In this case the group should be expanded to include, on a volunteer basis, local officers of the business associations, the banks and farm organizations that have substantial local membership.

The purpose of the Rural Development Committee would be to:

> Identify those opportunities to develop or revitalize local enterprises, using native talent and available resources that would contribute to economic stability in the community;

> Establish priorities among possible projects that deserve public support;

> Gather information on outside assistance that might be available from federal, state or private sources;

> Organize support among business leaders and organizations for new developments or upgrading existing facilities that will attract small industries and permanent types of enterprise.

The state-level support group for this approach should be directed to work with business associations and other government departments, to identify industries seeking new plant locations, sources of credit and the availability of technical advice not always obtainable at local levels.

At the national level, the effort must be strongly supported in the Secretary's office if sufficient cooperation is to be mustered quickly. Admittedly, this type of effort may not be successful in every instance, but there has to be a means of initiating action through an organized approach. Strong leadership will be required to mobilize available talent without creating a large number of new payroll positions in government.

Energy and Utilization of Natural Resources

We strongly concur in the recommendation of the National Rural Electric Cooperative Association that a new unit be created in the Rural Electric Administration to provide technical assistance in economic development. The experience and working relationships between the REA Cooperatives and the many communities in which they serve is a valuable asset that should be mobilized for this purpose. Many of those co-ops are now moving effectively to use new communication equipment and offering access to such facilities to others at the local level.

The REA Cooperatives' understanding of energy availability, costs and related management factors will be of great value in many rural development projects. This ability should be fully utilized.

It is important to recognize that such capability relates directly to technical know-how and the wise use of available resources. However, such co-ops often serve an area covering several counties and municipalities. In contrast, the Rural Development Committees recommended above would be operative on a county by county basis.

Such committees would be an arm of the federal government expected to organize and work with the local units of government and the service organizations that are also usually organized on a town or county basis. Thus, the two systems would complement one another in their efforts, each furnishing a different type of leadership.

The Economy

Certain knowledgeable authorities have reminded us that prosperity and progress in many rural communities depend heavily on the financial condition of three major industries - oil, timber and farming. The survival of local business concerns and the economic status of schools, churches, the tax structure and other vital functions are closely aligned with the fortunes of one of these sectors when it dominates any locality.

Although we do not go into any detail at this time, we urge the Members to realize that the economic health of at least one third of our rural communities relates directly to prices received for our principal farm commodities.

Under current law you have reduced our price supports and market prices while maintaining income with high payments. The budget crunch becomes more difficult each year.

We do not expect that you will be able to generate enough government payments to sustain even a minimum net farm income from grain farming, for example, in the next farm bill if you stay with the present low price policy approach.

In our judgment, the Congress would be wise to plan for a change of course in the 1990 farm program legislation if we are to have any chance at successful rural development in most rural areas where farming is the main industry.

It is our recommendation that the Committee set in motion now any needed staff research or study to analyze the effect of reinstating loan rates at the pre-1985 Food Security Act levels, reducing payment obligations accordingly and operating a program in a style designed to improve our own domestic economy. Rural development will be enhanced in many communities if farm producers are able to handle their taxes, their bills and various obligations within the community. They cannot aid in rural development if they are broke.

Furthermore, we are not interested in expansion of export markets if we must always sell at prices below the cost of production. We are convinced that foreign trade negotiations, the possible development of multilateral commodity trade agreements at acceptable price levels, should be undertaken. Such actions should be conducted independently of our own domestic program policy. These issues bear heavily on the potential for revitalizing the rural economy in many areas of the United States.

In conclusion, we believe the Rural Development Committees can be established and operated within current budget restrictions. The redirection of farm program policy can literally be managed to reduce the government outlay of funds.

The officers and members of the National Farmers Organization will cooperate to assist in each of the recommended actions. Again, we thank you for the opportunity to present our views and assure you of our willingness to be helpful in dealing with these difficult problems.

REVISED COPY

Testimony

of

B. WAYNE CLARK

President of

Missouri Telephone Company

on behalf of the

UNITED STATES TELEPHONE ASSOCIATION

submitted to the

CONSERVATION, CREDIT AND RURAL DEVELOPMENT

SUBCOMMITTEE ON AGRICULTURE

OF THE

UNITED STATES HOUSE OF REPRESENTATIVES

Opening Remarks

Mr. Chairman and Members of the Subcommittee, I am B. Wayne Clark, President of Missouri Telephone Company. I appear before you on behalf of the United States Telephone Association (USTA). USTA represents about 1100 member companies that provide telecommunications services to over 98 percent of the access lines in the United States. USTA members range from large publicly-held corporations to family-owned companies and customer-owned cooperatives. For nearly a century, USTA member telephone companies have been dedicated to fulfilling two goals: serving the nation's telecommunications needs and maintaining universal service. I appreciate this opportunity to discuss USTA's views on rural development; particularly the role of telecommunications in enhancing the economy and quality of life in rural America.

USTA strongly supports rural development. I would like to thank this Subcommittee for holding these hearings to fully explore the best ways to help rural America revive and increase its economic vitality. I appreciate the opportunity to contribute to that important process.

Rural areas do not need new bureaucracies in Washington. They do not need unnecessary duplication of existing programs. Nor do they need well meaning but not well thought out government programs.

Rural areas do need a full commitment to, and the proper administration of current development efforts. Rural areas do need efficient and effective programs that provide incentives encouraging the continued economic strength of our nation. The private sector must join rural citizens and federal, state and local governments to develop rural areas.

The Rural Electrification Administration telephone programs, if properly administered with a true commitment to rural America, can help bring the emerging information age to rural America.

The United States is rapidly moving into that information age. Experts predict that by the year 2000, sixty-six percent of the American work force will be employed in information services. In such an economy, telecommunications is a key part of the infrastructure, especially in the rural areas of our nation. Businesses are starting to look to rural America as a cost-effective place to locate, especially since computer technology makes it easy to link distant operations. Without advanced telecommunications systems, however, these businesses would not have the satisfactory technology to accommodate their needs.

The challenge facing rural America is to have in place the technical information structure which will be required for full participation in the information age. The shift to a service economy and the coming information age is a two-edged sword for rural America.

In the information age, the rural disadvantage of remoteness from urban markets may be accentuated if not integrated into emerging technology. If left behind, rural communities may to an even greater extent, become "importers" of services from urban areas. If, however, an up-to-date rural telecommunications infrastructure exists to attract service industries and play on rural America's advantages of low labor cost and high quality of life, the information age may help to equalize opportunities for rural America. Sufficient telecommunications services will help eliminate geographical barriers.

Last August, the National Governors Association unanimously adopted a policy on telecommunications, which in part said: "the ability to transmit and process information is essential to improving economic productivity and growth, and is playing an increasing role in the delivery of education, health care, and other essential social services. This ability, in turn, depends on the capabilities, quality, and cost of our national telecommunications infrastructure."

The governors recognized that, in addition to the new business opportunities and new jobs which an adequate telecommunications infrastructure would provide, the quality of life of rural Americans would improve in other ways. Fiber optic transmission facilities can be used to link rural primary and secondary schools and colleges and universities, enabling the schools to pool their teaching talent, share specialists in foreign languages, mathematics and sciences and draw on the resources of colleges and universities, near and far. The great information-carrying capacity of fiber optic cable can make true interactive video for rural education a reality. Modern telecommunications can do the same thing for rural health care and social services. Preserving the presence of fully capable local schools, hospitals and social service agencies in rural areas is crucial to maintaining rural communities. When schools and hospitals close, towns cease to exist.

USTA strongly supports rural development initiatives. Our association was one of 117 signers of an April 3, 1989 letter to Congress that urged consideration of comprehensive rural development legislation. We understand that the loss of rural jobs and the concomitant loss of population in rural America means fewer business and residential subscribers to support the cost of the telephone network. This translates to higher rates for those who remain and makes more remote the possibility of bringing the information age to rural America.

Any rural development legislation should take into account and seek to enhance the rural telecommunications infrastructure that presently exists. Our members have provided telephone service to rural America for almost 100 years. The majority of our members have borrowed from the Rural Electrification Administration (REA) to build the rural network.

Rural America is not well served by legislation which actually encourages bypass of the public switched telephone network. Any telecommunications provisions of rural development legislation that favor private networks, at the expense of those held out to all, will damage underlying assumptions behind our existing telecommunications infrastructure. Widespread use of the network is what pays for its great cost. Loss of traffic means loss of revenues and costs that must be shared among fewer remaining rural subscribers. This leads to higher rates. Higher rates mean that service becomes unaffordable for some. A downward spiral can result, if more subscribers leave the network, with even fewer remaining subscribers to share the costs. Such a spiral would endanger the security of $8.5 billion in loans made through the REA telephone programs to rural telephone companies. This does not serve the interests of rural America or the government.

A strong and effective REA telephone program is the best way to assure a telecommunications infrastructure capable of meeting the needs of rural America in the

21st century. The public/private partnership which comprises the REA telephone program has been successful in bringing modern telecommunications to approximately 96 percent of rural Americans. Proper administration and full use of the REA telephone program can effectively accomplish most rural telecommunications goals. The present Rural Electrification Act (Act) allows funding for two-way video for educational purposes, and extension and improvement of facilities that can be used to link hospitals, government offices and businesses. What rural telephone companies need most in order to modernize the rural telecommunications infrastructure is an affirmative commitment by government and an assured source of affordable financing.

Unfortunately, burdensome and antiquated procedures and administrative efforts to undermine the strength of this program have diminished its effectiveness. One of those efforts was the artificial inflation of Rural Telephone Bank (RTB) interest rates. I would like to thank you, Mr. Chairman, for your strong and successful efforts to correct that situation. You will be pleased to know that as a result of properly-derived RTB interest rates, loan applications are up dramatically. The foundation of the program - the voluntary nature of telephone company participation - has been immeasurably strengthened. But more can and needs to be done.

USTA therefore recommends the following specific proposals to make the REA telephone program more effective:

1. Direct REA to lend the $153.8 million in carry-over insured loan funds authorized in previous years but held by REA.

2. Direct REA to develop streamlined loan processing procedures more consistent with those prevailing in private lending markets. Such procedures should allow for documentation that is no more burdensome and no less reliable than that available privately, for expedited handling of loan applications in conjunction with rural educational, medical or other development projects and should ensure that funds are made available to borrowers in a timely fashion.

3. Correct recently-promulgated REA regulations and direct REA to lend at terms up to the statutory maximum authorized in the Act.

4. Direct REA to lend for all purposes authorized by the Act, including funding for advanced telecommunications equipment capable of providing equal access to long distance carriers and the host of new services made possible by signalling system 7 hardware and software.

5. Permit Rural Telephone Bank (RTB) borrowers to rescind the unadvanced portion of high interest rate RTB loans and to reapply, without prejudice, to the RTB for a new loan for the same purposes.

6. Direct REA to make full use of authorized loan funds, to the extent there are meritorious applications.

7. Direct REA to adopt a policy to actively promote constructive rural infrastructure development by borrowers, by freeing up private capital locked in rural telephone systems by REA policies. Amounts invested by borrowers for rural telecommunications or other rural development purposes

should not be treated by REA as a dividend or distribution of capital.

8. "Direct REA to establish policies to encourage eligible telephone borrowers to provide cellular telephone service in their service areas and to make loans for such facilities."

9. Direct REA to eliminate policies which require borrowers to meet stringent interest coverage requirements which exceed Act requirements. Such policies will lead to potential borrowers being disqualified from the program on the basis of barriers not contemplated by the Act, or being forced to raise local telephone rates to meet unnecessary requirements.

10. Direct REA to increase its technical staff, so that studies can be performed to help focus rural applications for new telecommunications technologies most effectively. REA did this in the past, pioneering subscriber carrier systems and buried cables; it should do so now.

All of these proposals, which could enhance the valve of the rural telecommunications infrastructure by at least $500 million dollars, can be accomplished with little or no additional cost to the government. Mr. Chairman, the answer to meeting the needs of America's rural telecommunications infrastructure isn't new programs and bureaucracies - it is to make the existing REA telephone programs work more effectively.

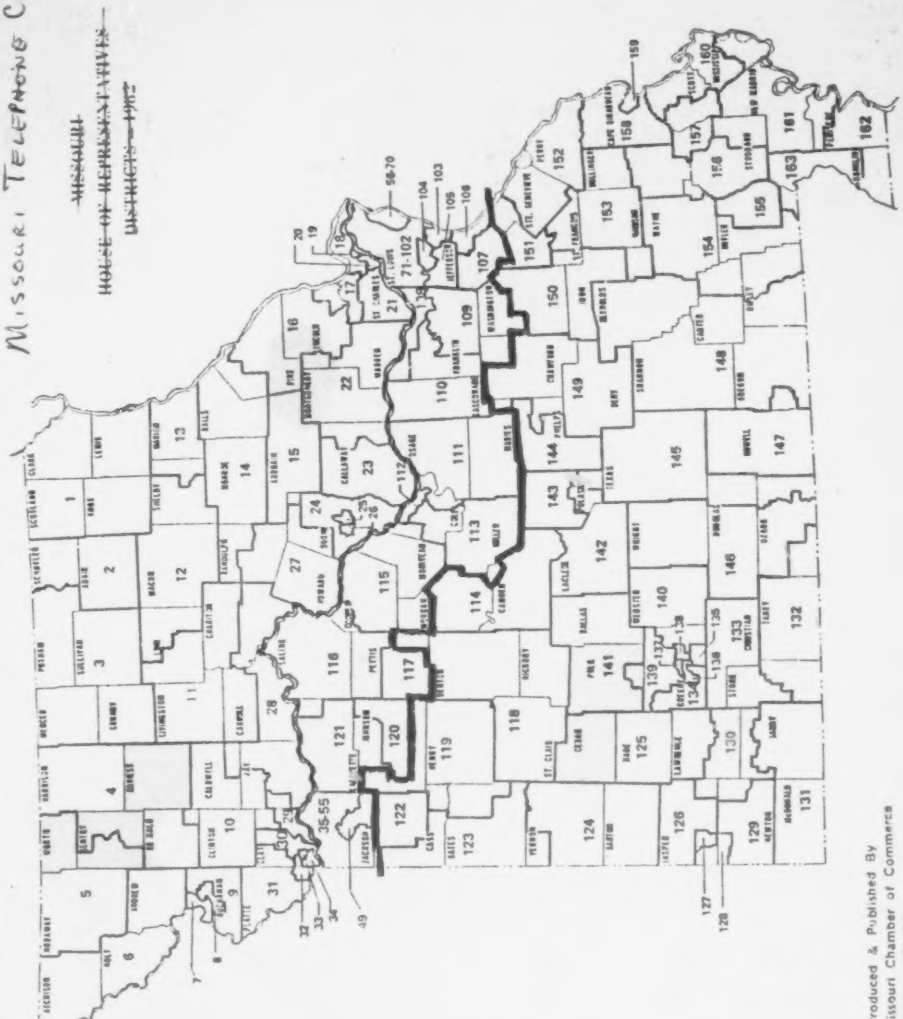
Thank you for the opportunity to appear before your subcommittee, Mr. Chairman, and present our views on rural development.

Missouri Telephone Co.

~~MISSOURI~~

~~HOUSE OF REPRESENTATIVES~~

~~DISTRICTS — 1982~~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National Association of
Community Health Centers, Inc.

Statement

of

Bernard Simmons
Executive Director
Southwest Health Agency for Rural People
Tylertown, Mississippi

on behalf of the

National Association of Community Health Centers, Inc.

to the

Subcommittee on Conservation, Credit, and Rural Development
House Committee on Agriculture

on

Rural Health and Rural Development

June 21, 1989

1330 New Hampshire Avenue, N.W. Washington, D.C. 20036 (202) 659-8008

Mr. Chairman and Members of the Subcommittee

My name is Bernard Simmons. I currently serve as the Executive Director of the Southwest Health Agency for Rural People, located in Tylertown, Mississippi. As a resident and a provider of health care in rural Mississippi, I am pleased to be with you today to discuss the rural economy and the need for accelerated economic development in rural America.

The rural areas of this country are in serious trouble. Declines in basic rural industries; agriculture, forestry, energy development, and fisheries, cost more than half a million rural jobs between 1981 and 1983. Since 1983, that number has doubled. Nearly one million farms have been foreclosed since 1981, and in 1987 alone, American families gave up farming at the rate of 2000 per week. Current estimates are that 35 percent of rural workers are underemployed. Recent predictions show one job will be created in rural areas for every 7 created in the city.

The nature of rural employment will have to change if these trends are to be reversed. New jobs will have to be developed in light industries, modified agriculture practices and service industries, if rural America is to survive. The ability of an area to attract business interest today is dependent on more than the traditional concerns of tax incentives, constructions costs, and market proximity. To begin to attract investment, a community must demonstrate adequate transportation, public safety, access to quality elementary and secondary education, and quality health care as a minimum base of support for its residents. These basic services, necessary to attract new interests and hold current residents, make their own valuable contribution to the local community as well, and so are doubly important to the development of rural communities.

Of the four basic social services mentioned, some have a more solid base than others. Public safety, police and fire protection, are generally adequate and supported by public funds, although fire protection in rural areas is still heavily dependent on volunteer service. Transportation is generally available for schoolchildren and the elderly, while large segments of the population and significant geographic areas are unserved by public transportation. Education, funded by all levels of government, is available in all areas of the country, although discussion and debate continues regarding quality. Of the services most necessary to attract and hold rural business and industry, health care remains the single greatest question mark for too many rural areas.

Unlike education, transportation, police and fire protection, health care has traditionally been considered private enterprise in rural America. Some facets, including hospital/nursing home facility construction and maintenance, have been provided through government enterprises. Ambulance and emergency transport services are often combined public/private endeavors. Medical care, however--the services of physicians, mid-level practitioners, dentists, pharmacists, and other providers--is viewed as a fee-for-service, private sector industry. Support for that industry has taken the form of reimbursement for the care of specific recipient populations by private practitioners, rather than, as in education, public support of a salaried employee. Simply stated, we assume that Doctors will be able to make a living by charging patients for their services, and that patients will be able to pay for those services when needed. We do not, on the other hand, assume that patients can pay piecemeal for hospital construction or expensive diagnostic equipment, so we agree to governmentally subsidize expensive secondary and/or tertiary health care, to assure its availability. The result is that primary health care is a volume-dependent business, and rural areas do not have the population density to support such volume. The relatively high cost of providing services to fewer people has not been recognized by public or private third party payors. Indeed, they continue to erroneously assume that health care costs less in rural than in urban areas, a myth which cannot be sustained given a service for service comparison. Health care in rural areas, as a total expenditure, has been lower than in urban areas because the available menu of services has been consistently inadequate to assure care of a quality comparable to the urban system.

Current economic trends in rural areas have acted to decrease volume and increase the cost per treatment episode. The direct results have been declining provider income, acceleration of attrition in services, and increasing isolation of practitioners as the decline in provider incomes fails to support services at even the most marginal levels. The relationship of physicians and hospitals has provided many rural areas with a disheartening problem. Hospitals cannot remain open without access to physicians services. Physicians do not like to practice without hospital access and support. The hundreds of recent community hospital closures will, in many cases, be followed by loss of physician coverage, further threatening access to care in those rural communities and eroding their ability to maintain a viable economic base. Statistics on rural health at present are very depressing. Chronic disease, infant mortality rates, and accidental deaths are all higher in rural areas, as indicated in the attached material. Service shortages of physicians, nurses, dentists and pharmacists already exist. All those trends will accelerate if the present situation continues. And we must remember that rural America, with 25 percent of the American population, has 40 percent of the nation's poor. As these trends continue, delays in care-seeking at the primary level will result in increasing need for expensive secondary and tertiary care at public expense.

There is no single federal intervention which can reverse this rural decline and lead to development of a revitalized rural economy. Individual communities are confronted by combinations of problems as diverse as the geographic and demographic differences of those areas. There are, however, a number of actions which Congress could take to increase rural options in such a way as to facilitate the continuing viability of health services in rural areas, increasing the probability of recovery. Those actions include expansion and/or modifications of existing federal efforts as well as development of new approaches to rural needs. Activities worthy of consideration include:

- Expansion of the Community/Migrant Health Center Program.

  Community/Migrant Health Centers (CHC's) are private, non profit, primary health care providers, governed by boards comprised in the majority of patients who reside in the community. They receive federal funds to assure access to care for populations in need. Of 862 such centers in existence in 1981, 535 still exist today, after declining federal support. 355 of those centers serve 2.8 million of the 17 million rural Americans currently living in areas which do not have adequate health care. Those 355 enters employ more than 12,000 community residents, and use $196 million in federal grant dollars as part of a health care effort that adds half a billion dollars annually to the rural economy. Those dollars add to the local economy, and more importantly provide important support for other health services, such as laboratory, pharmacy and X-ray services which might not otherwise exist. Additionally, the stable physician services at those clinics assure that the medical coverage needed to maintain hospital services is present. Community Health Centers support has eroded significantly in recent years. The Congressional budget office estimates that, considering inflation, CHC's receive 25 percent less federal support today than they did in 1981. Inadequate physical facilities at many Centers has resulted in a need for $50 million in fire and life safety upgrades at present. Federal regulations preclude the development of necessary reserves for operating contingencies, capital equipment replacement or necessary expansion of services. Increasing demand for discounted services caused by the declining earning power of rural residents, coupled with inadequate reimbursement for services to Medicare, Medicaid and privately insured patients has placed CHC's in precarious cash positions, with increasing bad debt, extended accounts receivable and threatened the centers ability to assure continued operation. Moreover, recent medical malpractice cost increases have placed heavy financial burdens on centers as well as directly threatened services to rural residents. For example, with two-thirds of all infant deliveries in rural areas being performed by family practitioners, the increasingly restrictive pressures placed on those qualified family practitioners by medical liability insurance companies leave large numbers of rural women without access to obstetrical services.

Under federal administration, Community Health Centers provide quality health care in a cost-effective manner. Current funding does not allow those centers now in operation to meet inflationary cost increases without limiting services or numbers of patients served, and precludes development of new centers. As indicated, only 2.8 million of the 17 million rural Americans currently living in areas without access to adequate health care are now served. Increased appropriations for this program would stabilize current services and permit development of new health centers, would provide the additional human services base needed by many rural communities to successfully compete for new business and industry, and would increase the probability of survival for physician-dependent rural hospitals.

- Passage of technical amendments to PL95-210, the Rural Health Clinics Act.

  The Rural Health Clinics Act provides cost-based reimbursement for services to Medicare and Medicaid recipients by qualified rural providers. Recent adjustment of the cost cap have made this program potentially useful to rural private practitioners, and to hospitals considering diversification which includes provision of ambulatory care. However, the certification process should be streamlined and standardized. Additional changes are needed to address the extreme restrictiveness of some states in determining the practice capabilities of mid-level practitioners whose participation is required for certification. A relaxation of current policy to permit certification while recruiting upon recognition of good faith effort would allow more rural providers to receive adequate reimbursement for services provided to publicly insured patients. The technical amendments are covered in H.R. 1585.

- Support of the proposals contained in S. 1199, the Community Health Clinic Improvement Act of 1989.

  As with the Rural Health Clinic Technical Amendments, this act would enhance the ability of eligible clinics in rural areas to maintain service capability by assuring that they can receive fair reimbursement for the costs of health services provided to patients covered by Medicare and Medicaid. Presently, health centers are often forced to use the already scarce grant dollars to subsidize Medicare and Medicaid, which do not pay the fair cost of care for their beneficiaries. This further exacerbates the problems for CHC's identified earlier. CHC's, like many rural hospitals, have a disproportionate share of Medicare and Medicaid patients and have no place to shift the cost of care uncovered by these government programs except to grant dollars. In order to assure access to primary care in rural areas and stabilize these CHC's, adequate reimbursement must be realized. Not all rural CHC's meet the criteria for the Rural Health Clinics Act, and therefore, would be covered under this legislative proposal.

- Increased appropriations for the National Health Service Corps (NHSC), with specific emphasis on scholarship and loan repayment provisions as well as an immediate increase in capability to enlist volunteers for shortage area service.

The assumed physician glut has not materialized in rural areas. Many Americans live in areas of such low population density that a volume-based medical practice or community hospital operations will never be viable. While NHSC providers are needed to assure continuity of care in current Community Health Center sites, increased attention should be paid to these very serious shortage areas, including accelerated training and recruitment of mid-level practitioners.

- Provision of Tax Credit for Primary Care physicians in high need rural areas (S. 1060).

Senator Pryor (D-AR), along with others, has introduced a bill in the Senate which attempts to address rural personnel shortages through the use of modest tax incentives and elimination of tax disincentives. This bill would provide qualified primary care physicians who are practicing in needy rural areas a tax credit of $12,000 per year for three years based on a five year service incentive. The plan also would eliminate the taxable status of medical education loans repaid through the NHSC Loan Repayment Program. This is a creative approach to responding to the manpower shortage in rural areas and should be given every consideration within the House of Representatives as well as the Senate.

- **Increase the flexibility of options under the Community Facilities Loan Program (CFLP).**

  A rural development bill under consideration by the Senate Agriculture Committee includes provisions which would permit CFLP to restructure loans in degree of default. Many Centers carry FmHA loans on existing facilities. Such a provision would be beneficial to centers experiencing cash flow or revenue generation problems. We recommend that similar legislation be considered by this body.

As stated, none of these recommendations would provide a magic bullet for rural America. Taken together, however, they would provide flexibility for rural communities to stabilize their health care services, increasing the community's economic viability directly as well as providing them with a competitive edge to attract new business or industry.

(Attachment follows:)

HEALTH CARE IN RURAL AMERICA: THE CRISIS UNFOLDS

Report to the Joint Task Force
of the
National Association of
Community Health Centers
and the
National Rural Health Association

May, 1988

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Introduction

Many of the problems in rural health care are well known. Most policy makers know there is a physician and nursing shortage or that rural hospitals are in financial distress. Unfortunately, much of the research in this area is issue specific and is descriptive of the depth of the problem rather than analytically looking at the interplay of the diverse issues. The issue specific nature of the research then produces a "shotgun" approach to public policy development, when a coordinated approach would be more effective. For example, increasing Medicare reimbursement to rural hospitals to more accurately reflect costs, without addressing the problem of the shortage of physicians in rural areas is to provide the hospital with resources to support the cost of inpatient care without the physicians to provide the care. This report is designed to provide an analytic view of the diversity of issues and is intended to stimulate a coordinated approach to public policy solutions.

The report begins with a description of the nature and extent of the deteriorating situation in rural America. The impact of various issues and trends on several sectors of the rural health care system and different sectors of the rural population are then examined. The report concludes with a set of recommendations that are intended to provide direction for federal and state public policy makers.

This report has been developed over the last year as a cooperative effort of the National Association of Community Health Centers and the National Rural Health Association and in collaboration with other national organizations who share common concerns and goals.

The Deteriorating Situation

The economic situation in rural America continues to deteriorate, increasingly burdening a health care system that has been chronically inadequate to meet the needs of rural Americans. In order to understand the diversity and complexity of the problem, one may look at the following as examples:

In Montana, a young family doctor is giving up his practice in his hometown due to the rising cost of medical liability insurance. His premiums are now $53,000 per year -- more than his net income last year. He could lower his premiums by stopping his small obstetrics practice, but delivering babies is the "joy" in his otherwise sorrowful work. If he can't deliver babies he said he would leave his hometown and go into aerospace medicine. His departure will leave a vast area without ready access to obstetrical services.

In West Virginia, a family of four lives in poverty. The father has been out of work for over four years, no longer qualifying for unemployment assistance or being counted in the unemployment statistics. He was a coal miner, put out of work by new technology. The family is essentially homeless, living in a small, run-down house with no running water or flush toilet. They live on a small public assistance check and food stamps -- nearly 70 percent of the county's population is on food stamps. The state's Medicaid program is nearly bankrupt, so the local community health center is the only place they can go for health services. In other places in West Virginia, accounts receivable from Medicaid and bad debts from people with no insurance are threatening to close some community health centers.

In Missouri, a small town has been trying for over two years to recruit a family doctor to replace their aging local doctor. The town's small hospital is in serious financial condition, partly because Medicare pays it nearly 40 percent less for its services than hospitals in the city 70 miles away. About 60 percent of the hospital's business is from the elderly. The hospital is having trouble recruiting nurses too, because they don't have the resources to increase wages or expand benefits because of negative profit margins.

In South Dakota, a farm family has hit hard times. They are using every penny to hold off the family's creditors, and they have dropped their health insurance policy as an expendable item. They pray they will not get sick or injured. They are at high risk since farming is one of the most hazardous occupations in America. Their new poverty is causing great stress, and the husband is drinking too much. Help is hard to find because the community mental health center has dropped its outreach into their rural area.

In Colorado, two family doctors have been in practice for two and three years under the auspices of the National Health Service Corps. One doctor is leaving to find a more lucrative, less demanding practice in the city. The remaining doctor will stop obstetrical practice when the other doctor leaves because the load is too heavy for one doctor and the National Health Service Corps has no other doctors available for placement. Over 100 pregnant women per year will have to drive to the next distant town for services. Private recruiting efforts have been unsuccessful for this remote town.

Although one-quarter of all Americans live in rural areas, public funding for health care in rural America has consistently lagged behind the U.S. average. At the federal level, per capita expenditures for health and related services are far lower for rural residents:

- 42 percent fewer health service dollar per capita than the U.S. average
- 50 percent fewer social service dollar per capita than the U.S. average

Programs which combine federal and state responsibility mirror federal expenditure trends:

- *70 percent* of the rural poor live in states where the maximum AFDC benefits are below the national median.

- The rate of qualification for public assistance is 37 percent lower in rural areas, and more than 75 percent of the rural poor *do not qualify* for public assistance.

Current statistics on the 1980s indicate that an ever-increasing demand is being placed on inadequate rural resources. Farm closures, unemployment, loss of insurance, and inability to pay for health care have provided additional pressures on the rural family:

- Since 1979, reversing a historic trend, the rural unemployment rate has been *consistently higher* then the urban unemployment rate. In 1979, 5 percent of the 2040 nonmetropolitan counties had high (9 percent or above) unemployment rates; by 1985, that figure had grown to over 50 percent of rural counties having high unemployment.

- Between 1981 and 1986, 650,000 farms were foreclosed nationwide and in 1987 alone, American families gave up farming at the rate of *2,000 per week.*

- Between 1981 and 1983, rural America lost 500,000 jobs.

- Current estimates are that 35 percent of rural workers are under-employed, either working part-time or in jobs beneath their skill levels.

- Recent predictions based on expanding and contracting areas of the economy are that only *one* job will be created in non-metro areas for every *seven* created in the city.

These trends have placed more rural residents in jeopardy, as loss of insurance and income erode the ability of the rural family to purchase health care. For all races, the median family income for non-metro and farm families is consistently lower than it is for metro and non-farm families. In 1985, 17 percent of all farm families, and 15 percent of all non-metro families, had income below the federal poverty level. For some segments of the rural population, the situation is much worse. As many as 36 percent of rural Hispanic families live in poverty. One of every five elderly non-metro residents lives in poverty, a rate 15 percent higher than for elderly residents of the United States as a whole. The combined result of these statistics shows that rural America, with 25 percent of the country's population, has 38 percent of the nation's poor. At its extreme, the problem is heavily concentrated. Of the 86 counties nationwide in which 1/3 or more of the population is in poverty, all but one are non-metropolitan in nature.

Both employed and unemployed rural residents feel the economic pressure of current trends. Real per capita income in farm counties fell from 91 percent of the metropolitan level in 1973 to only *76 percent* in 1984. All rural residents, as a group, have a 15 percent higher rate of uninsuredness than the U.S. average, and a 24 percent higher rate than their metropolitan counterparts. The low levels of insuredness contribute to a cash drain on the rural family. Rural residents pay, on average, 10 percent more of their income out-of-pocket for health care than do their urban counterparts. Among the poor, those supposedly protected by the "safety net," rural residents experience a 10 percent higher rate of uninsuredness than the U.S. average, and a 44 percent higher rate than their metropolitan counterparts.

The results of this long-standing problem, exacerbated by the economic downturn of the 1980s, may be seen in the health profiles of rural Americans. Rural residents are more likely to suffer from chronic disease conditions, including: arthritis, visual and hearing impairments, ulcers, thyroid and kidney problems, heart disease, hypertension and emphysema. They are also more likely to suffer limitations in activity as a result of these chronic conditions than are urban dwellers.

More hospitals, physicians and nurses, and other health personnel and services will be required to meet these increasing needs. Yet current trends in availability of health care facilities and personnel show marked decreases and consistent inadequacy which paint a bleak picture for rural Americans.

Hospitals

More U.S. hospitals closed in 1987 than in any other year during the decade, with record closures of rural hospitals. According to a recent study funded by the Center for Health Services Research and carried out by the University of Illinois at Chicago, a total of 80 hospital closures were noted during the year -- and 40, or half, of the closures were in nonmetropolitan areas. In contrast, during the period 1980-85, rural hospital closures averaged 20 per year and were only 35 percent of all community hospital closures. Almost one-third of the nation's hospital closures were in Arkansas, Louisiana, Texas and Oklahoma alone.

The increase in hospital closures relates closely to Medicare's implementation of the Prospective Payment System (PPS) in 1984, with over twice as many hospital closings in

1987 as in 1984. Under PPS, Medicare pays rural hospitals 36 percent less than urban hospitals for the same services. As a result, according to the Department of Health and Human Services, in 1986 urban hospitals made a 10.82 percent profit margin on PPS patients, while rural hospitals *lost* an average 0.69 percent.

The pressure on hospitals will have results which place even more pressure on the rural family's income. Predictions by Lewin/ICF, in a recent issue of Medical Benefits include:

- increased numbers of closures of hospitals, especially in inner cities and rural areas which need them most;
- increased shifting of higher medical costs to the patient, as insurance coverage falls further behind rising medical costs;
- decreasing ability of hospitals to meet increasing needs for charity care; and
- decreasing ability of hospitals to adopt newer technology due to dollar limits on diagnosis-related group (DRG) health care interventions.

In the current atmosphere, proponents of lower health care costs depend heavily on preventive health interventions as a way to maintain good health outcomes while avoiding the increased cost of secondary or tertiary treatment. This strategy depends on access to entry level care, including local physicians, mid-level practitioners, and an availability of other health services which work in a coordinated fashion to manage total care for the patient efficiently. Unfortunately, supplies of such providers, and the existence of necessary comprehensive care systems, are not in evidence in rural America.

Physicians

Many rural communities continue to have problems in recruiting and retaining physicians, despite the alleged national "doctor glut." While some diffusion of doctors into rural areas is taking place, it is very slow and is not occurring uniformly across the country, according to a recent study performed by Kindig and Movassaghi of the University of Wisconsin-Madison.

The study showed that in small rural communities between 1975 and 1985, physician-to-population ratios grew at a rate less than half as fast as in the nation as a whole (14.2 percent compared to 32.5 percent). Moreover, small rural communities continued in 1985 to have physician-to-population ratios less than one-third that of national rates (53 physicians/100,000 versus 163 physicians/100,000).

One of the most important programs to address this problem, the National Health Service Corps (NHSC), is being dismantled after over 15 years. At the very time when rural provider needs are high, the field strength of the NHSC is declining. Nearly 65 percent of Corps placements have been in rural areas. By the end of FY 1989, the NHSC field strength will be only slightly more than half its field strength at the beginning of FY 1988 (from 2,595 in 1988, to 1,401 in 1989). Projections for the following year are that about 800 NHSC scholars will be available for placement in 1990. This pattern, should it continue, will mean that thousands of rural communities will be at risk for medical care, and they will be forced to try to compete with wealthier, more attractive practice settings to fill physician vacancies.

Nurses

The current nursing shortage is the result of numerous trends, including projected reductions in workplace opportunities as health care facilities close, and lowered federal support for nursing education. Nursing salaries have not kept pace with growing professional opportunities in other sectors, and are under increasing pressure due to implementation of general cost-saving measures in the workplace as reimbursement decreases for patient care. Projections by Lewin/ICF in Medical Benefits indicate that 10,000 fewer nurses will graduate in 1992 than did in 1984. The rural nursing shortage may grow even faster than the national shortage, as rural health care facilities with inadequate resources find it increasingly difficult to compete for nurses in the face of increased demand for their services in all settings. This is of particular import to rural areas, given the health status of rural residents and the shifting emphasis to lower cost, primary care in managed care service delivery settings. Nurses, both RNs and mid-level practitioners, form a significant proportion of the front line professional provider staff upon which such a system depends. With increased demand on an already fragile system of rural health care, the nursing shortage will mean lack of any access to entry level care for many rural residents.

Increased Demand

A consistent theme in discussions of rural health care has been the differentially low access to providers and facilities, as well as a lack of some or all of the components of a coordinated care system. Decreased federal funding for emergency medical services has left many rural residents without access to life-saving care in emergency situations. Long distances and provider shortages work to disrupt the smooth passage of a patient up and down the technology gradient when necessary, thus resulting in inadequate communication of patient needs and problems among primary providers, specialty care professionals, and extended care/recuperation resources. Further, resources necessary for successful outcomes following secondary or tertiary treatment are often unavailable. Surgical patients, high-risk mothers and infants, and other high-risk patient groups require consistent medical and health care during the entire course of resolution of their presenting problem. For example, the rural resident who is a victim of a serious automobile accident faces increased risk due to inadequate emergency medical transportation. Even assuming that transportation is available and the hospital treatment is successful, that increased risk is still not ameliorated: necessary intermittent follow-up, nursing care during recuperation, home meals and a safe, clean environment may not be available, especially to low-income persons. Shortages of ambulance services, home health providers, social service agencies and on-site medical/health providers decrease the patient's chance of obtaining the longer term, managed care necessary for positive outcomes. While this is true for all patient categories, it is especially illustrated by four problem groups facing rural providers today.

Medical Liability Crisis

According to a recent issue of Medical Economics, 63 percent of all family physicians and 45 percent of all general practitioners have dropped obstetrical care during the past five years in order to minimize malpractice risks. Medical liability premiums charged by physician-owned insurers increased by 99 percent in Utah, 73 percent in Colorado, 60 percent in North Carolina, 55 percent in New Mexico, 50 percent in Wyoming and 46 percent in Kentucky.

A recent survey by the Kansas Academy of Family Physicians showed that 23 percent of their members have dropped obstetrical services in the past five years citing rising medical liability insurance costs as a major deterrent. The group's executive director predicted that obstetrical services, especially in rural areas, is headed for a crisis.

A recent unpublished study in Colorado showed that if malpractice insurance continues to increase, the number of physicians providing obstetrical care will decrease, the distance pregnant women must travel and the number seeking care outside their county will increase, and low-income women are again the most vulnerable. Already 21 percent of the state's family and general practice physicians had dropped obstetrics in the past five years, citing concerns over malpractice insurance costs and fear of litigation as the major reasons. Over 60 percent of physicians providing obstetrics care for Medicaid and indigent women said they would drop obstetrics with increasing malpractice premiums. If rates were to rise only modestly to anticipated rates, 66 percent of rural FPs and 47 percent of rural OB/GYNs would drop obstetrics, resulting in thirteen additional counties (32 in all) having no medical obstetrical care. An additional 15 counties would have only one obstetrical provider.

Infant Mortality

Reduction of infant mortality is linked to relief from poverty and access to care. Perinatal care, good prenatal experience, and adequate follow-up are dependent on adequate housing and nutrition, health education, availability of specialty knowledge and competence, access to long-term follow-up by trained professionals, and adequate resources to assure the availability of clothing, heating, and necessary medication. Gaps in the service network and lack of resources would be expected to increase the risk of infant mortality. That is, we would expect higher infant mortality rates in rural populations due to lack of access to comprehensive care, especially in populations with high rates of poverty. In a U.S. population with an overall infant mortality rate of 11.2 deaths per 1,000 live births, we find the following:

Infant Mortality

	Metro	Non-Metro
Black	19.1	19.7
White	9.6	10.0

The above statistics indicate a higher infant mortality rate for rural areas across race. Using fetal mortality for Blacks only, the figures are:

Black Fetal Mortality

All U.S.	Metro	Non-Metro
13.7/1000	13.1/1000	16.3/1000

Non-metro Black/U.S. residents experience a 25 percent higher rate of fetal mortality than their metro counterparts.

The infant mortality rates for rural minorities is horrendous. This factor is now being further exacerbated by the malpractice insurance crisis that is forcing family practice physicians out of obstetrical services. This will only lead to an even higher infant mortality rate in rural areas.

The Homeless

Rural statistics on homeless individuals have been hard to develop, partly due to a lack of statistical data which in itself is a result of the inadequacy of rural resources. Although rural areas have 67 percent of all U.S. substandard housing, increasing unemployment rates already higher than comparable metro rates, and snowballing employer and business failures, homelessness is still commonly viewed as a predominantly urban problem. Disparity in the approach to the homeless problem enabled by recent grants under the newly created Section 340 of the Public Health Law are shown in the table below:

	% of Population	Estimated % of age of Homeless-CA & MD studies	# of Grantees under Section 340
U.S	100	100	109
Metro	75	82	99
Non-Metro	25	18	10

In recognition of the need for a comprehensive service approach to the needs of the homeless, Section 340 of the Public Health Service Law, created by the Stewart B. McKinney Act of 1987, includes primary health care, substance abuse programs, and mental health resources. With fewer resources overall to assure access to health and social services, rural communities have been provided with additional federal dollars, but nonetheless these are obviously insufficient to meet projected needs.

AIDS

The increasing seriousness of the AIDS epidemic has been projected to have devastating impact on Americans and on the health care community which serves their needs. AIDS patients represent an excellent group to illustrate comprehensive care needs, as available and sensitive care is necessary at all levels of the technology continuum. Screening and education, as well as counseling, are indispensable at entry levels to meet the medical, social, and emotional needs of the patient. The course of the disease process alternates between demand for high-technology intervention and longer term-supportive care. The entire system depends on the availability and coordination of resources to provide testing, counseling, education, primary medical care, specialty and hospital interventions, home care, respite, and hospice care.

Very little has been said concerning rural responses to AIDS patients, and few rural areas possess the coordinated patient care system necessary to meet this challenge. Fewer still have the resources to actually create such a local system. While AIDS continues to predominantly impact the urban delivery system, Centers for Disease Control (CDC) statistics indicate that rural areas are facing a growing problem which will further tax their limited resources or force victims of AIDS to move to urban areas, abandoning their existing social support systems and placing additional demands on metro health care services. Fairly consistent CDC data indicates that 20 percent of AIDS cases are rural, an indication that, proportionate to population, the illness is more evenly distributed in metro/non-metro areas than is generally thought. The AIDS syndrome is an extreme test of the national health care system. In rural areas, it will place further and heightened stress on a system already inadequate to meet the needs of a less fortunate population.

Migrant Farmworkers

Each year, more than half a million migrant agricultural workers and dependents leave their homes, enter the migrant "stream," and travel throughout rural America. In many ways, their relative degree of access to health services defines the lower end of the continuum. The general problems of resource and provider shortage, inadequate housing and social services, follow-up/management issues, and poverty are exacerbated for this population of people by the nature of their activities. Within this country, they are an "outsider" group in each community they visit, with family and social support groups far away. In general, their outsider status places them at the bottom of the priority pyramid when services are available, and keeps them from finding system access points which are often not well understood even by long-term residents. Given the nation's ongoing dependence on migrant and seasonal labor illuminated through discussions of the effect of the new immigration law, rural America will continue to face this problem for some time to come, and will need to deal more effectively with access to existing services as well as the problem of care in areas which do not now have migrant health programs available.

Further Issues

To recapitulate, rural areas have long-standing problems in terms of poverty, access to and availability of health care providers, and lack of common resources to assure continuity of care. While the current rural economic crisis has added to the problem, it is by no means a new or cyclic phenomenon. A recent study by Ross and Morrissey (1987) indicates that, while a larger proportion of the nonmetropolitan population is poor, the percentage of nonmetropolitan poor who are persistently poor is about the same as for the metropolitan population. They found that "Over 8 percent of non-metro residents were persistently poor in 1982 compared with 5 percent of metro residents. An additional 14 percent of non-metro and 9 percent of metro residents experience transitory periods of poverty. And, despite the concern about poverty spawning a permanent underclass in urban ghettos, the share of poor who were persistently poor was about the same (35 percent) in both non-metro and metro areas" (Ross & Morrissey, 1987). Thus, while overall metro-non-metro statistical comparisons tend to mask the presence of affluent population segments in urban society, comparisons of the poor and underserved in rural and urban areas clearly show mutually-shared economic and health care access disadvantages.

Moreover, general problems of access to health care in rural areas are exacerbated for minorities and special population groups. Blacks, Hispanics, and the elderly face crushing poverty in areas where care often is more available with increased ability to pay. Moreover, residents of extremely rural (less than 6 persons per square mile) areas, migrant farmworkers, AIDS patients, and high risk mothers and infants experience most sharply the lower end of a continuum of provider resources already attenuated by geographic distances and population limitations. Consideration of rural health problems must involve discussions of both patient issues and provider/resource availability.

Patient Issues

Patient issues include both availability and affordability of care. If no care is available, or if continuity of care is interrupted or poorly coordinated, all potential patients suffer. Interruptions in availability of care and current lack of services are serious problems facing all rural residents, and reasons for availability problems are increasingly economic in nature.

Regardless of improvements which might be made in availability of care, affordability will remain a separate but related issue. Especially in rural areas of the United States today, if you are Black, Hispanic or elderly, you should avoid illness at all cost. The ability of poverty populations to obtain health care in rural America, as demonstrated by differential morbidity and mortality data, is so restricted as to make rural residence alone a clear health danger to the poor. And for those already ill or at risk, rural residence is an even greater threat. High risk mothers, high risk infants, AIDS patients, elderly Americans with chronic health problems, accident/trauma victims, and others for whom communication along the health care system and access to secondary or tertiary care providers is important should not live in rural areas.

Providers/Resources

If you can afford to live in a rural area and pay for ongoing health care, the provider of that care may not be able to afford to treat you. Our national system of reimbursement is constructed on volume and averages. The DRGs which drive hospital reimbursement today are based on average care. For some illnesses, a given patient may require three days of hospitalization or seven days, and the reimbursement is capped at five days. In a large hospital which sees many patients with that illness, over time the number of patients requiring three or seven days will even out, and patient flow may begin to approximate the distribution on which the payment cap is calculated. In a small community hospital which may see only half a dozen such cases per year, the patient flow has no chance to approach that distribution. If all six patients, by chance, happen to require seven days of care, the hospital loses money. If similar conditions hold across all diagnostic groups, the hospital is in serious trouble.

Life-saving technology, a high cost option, is also spread across volume of patients.. A price of equipment which costs $500,000 and is used to treat 50,000 patients during its effective life is less costly per episode then if it is used to treat only 10,000 patients.

Similarly, an obstetrician who assists in the delivery of 250 babies each year, paying the same liability insurance premium as an obstetrician who makes 100 deliveries, is more likely to be able to spread the cost of that insurance across patients without placing the cost of delivery outside the reach of some patients. In rural areas, a family practitioner who is trained in uncomplicated obstetrics may have been the only resource available last year. In 1988, such a provider, looking forward to only 20-30 deliveries, cannot afford to provide obstetrics due to insurance cost alone; at 25 deliveries per year, a $25,000 insurance policy becomes an unacceptable overhead expense.

Equivalent arguments can be made for the availability of health services along the entire spectrum. Rural communities are forced by scare resources to choose between necessary services. In very small communities or sparsely-populated areas, the people may be forced to do without health services altogether.

Directions for Consideration

Discussions of response should be designed to increase affordability and access to care for rural residents. Two approaches should be used in concert: assuring care for poverty populations while working to strengthen the health care system in ways which ensure that comprehensive health care can be accessed through entry points in rural areas. Several approaches have been and are being used by the federal government and state/local officials to encourage access to affordable care for rural residents. They include

Community/Migrant Health Centers, the National Health Service Corps, Certified Rural Health Clinics, and hospital transition legislation, as well as discussions of equitable reimbursement for rural providers based on a re-examination of the original reasons for a rural/urban reimbursement differential. While some of these approaches are quite recent, many have a history of service which deserves re-evaluation with an eye toward improved services.

Community Health Centers

Community Health Centers grew out of the old OEO programs. Initial forays into rural areas occurred 20 years ago, under Health to Underserved Rural Areas (HURA) grants and Rural Health Initiative (RHI) grants. All remaining such grantees are now incorporated under Community Health Center (CHC) policies, with the same administrative guidelines and reporting requirements as all other CHCs.

Originally, funding for HURAs and RHIs provided more flexibility in areas of governance, clinical care and administration than permitted by CHCs. This same flexibility extended to the number of services provided. It was thought that rural programs could be operated with fewer services, and lower grant dollar levels, than larger health centers. At baseline, rural centers were typically smaller sites, with fewer providers, lower grant dollar funding, and fewer services. Typically less funding and effort was directed toward dental services, pharmacy, social services, preventive health education, transportation and outreach. An assumption made by such centers was that those services could be developed during the center's growth. But that has not proved possible. In fact, funding for all health centers has not even approached the increased costs of service caused by inflation alone. The current three year funding freeze, in fact, has threatened the existence of allied health services even at larger centers. In terms of rural needs, and the lack of other resources discussed above, both the theory of rural center establishment and the continued low level of funding have been in opposition to documented trends. Higher levels of authorized funding are necessary, even for those centers which exist, to meet rising costs and the increasing demand for services to the medically indigent caused by the rural economic crisis. Even more money will be necessary to permit expansion of this much needed program into other rural areas which currently lack services.

Certified Rural Health Clinics

The law permitting certification of rural health clinics is 10 years old. Low reimbursement caps have driven many such clinics to request decertification, and discouraged others from applying for certification. A program which was meant to increase flexibility of rural services, including payment for home visits and visiting nurse programs, while maintaining cost effective local provider access through use of midlevels, has withered on the vine. Congress predicted that approximately 2,000 clinics would be Certified by 1990, but there are only about 400 Certified Rural Clinics today.

And while the cap on reimbursed costs has finally been raised, administrative regulations and lack of knowledge about the legislation remain barriers to maintenance of existing clinics or establishment of new clinics. More work needs to be done to facilitate the ability of rural providers to obtain and maintain Certified Status.

National Health Service Corps

The NHSC has been discussed under the physician shortage heading. it should be noted that great need still exists in rural areas. Dismantling of the NHSC is a real blow to such communities. Several approaches to this problem have been discussed, and one or more federal/state incentives to rural practice will remain necessary for the foreseeable future if rural Americans are to be able to access the care they need.

Hospital Transition

Rural hospitals face double jeopardy. Current inequitable reimbursement by Medicare, combined with low utilization, threaten the existence of hospitals in many rural areas. Transition of the hospital to a different facility that would continue to provide care to rural residents is not currently facilitated by either legislation or adminstrative policy. Efforts to provide that facilitation are occurring at the federal legislative level, but model state legislation and changes in federal/state administrative regulations are immediately necessary, as are changes in the DRG reimbursement formulae to recognize rural disadvantages in current regulations.

While no easy answer to the rural health care crisis exists, specific initiatives as listed below would provide an initial attack on the problem from several directions. They include:

Given the ever-increasing shortage of health manpower in rural areas:

- Congress should fully fund the National Health Service Corps Scholarship and field placement programs as well as the Loan Repayment program in order to place urgently needed health care professionals in rural areas.
- States need to take a serious look at reforming their existing health manpower programs to more effectively place health professionals in the neediest areas and ensure their retention over time.
- Federal initiatives to states should be developed which would encourage states to adopt/reform health care practice statutes to allow for appropriate use of mid-level practitioners in primary care settings.
- Federal and state reimbursement policies should foster incentives to attract and retain physicians and other providers in rural areas.
- Federal efforts to market and provide technical assistance to enhance the number of Certified Rural Health Clinics should be developed.

Given the increasing number of uninsured rural residents and the lack of access to basic health care:

- Congress should reauthorize Community and Migrant Health Center programs at levels of funding sufficient to enable current centers to meet necessary costs and provide for new centers in rural areas unserved at present.
- Federal and state public officials should pursue private/public initiatives designed to ensure that Americans without health insurance are provided basic health coverage regardless of ability to pay.

Given the increasing crisis in malpractice insurance and its impact on access to obstetrical service and, ultimately, infant mortality in rural areas:

- Model federal legislation as a guide to states now struggling to address the threat to service posed by rapidly increasing malpractice insurance costs should be developed along with incentives for states to address this problem.

Given the financial crisis facing many rural hospitals and the increasing number of rural hospital closures:

- The Medicare program should replace the separate urban and rural DRG rates with a single rate for all hospitals adjusted for legitimate and current local cost variations.

- The current wage adjustment in the Medicare DRG reimbursement formula should be refined to more accurately reflect the cost of professional labor for rural hospitals.

- Federal and state public policy, reimbursement strategies and health care regulations should be designed to encourage hospitals to diversify and engage in a smooth transition to health service facilities tailored to address the unmet health care needs of the local area.

Given the increasing prevalence of public health issues such as AIDS, infant mortality and homelessness in rural areas:

- Flexible federal/state assistance for these public health problems should be designed to ensure programs are both responsive to the unique characteristics of rural areas and funded sufficiently to allow for flexible approaches.

- While acknowledging the importance of research, assure that federal AIDS initiatives emphasize the necessity of community education, outreach, prevention and early diagnosis and treatment for victims of AIDS.

- States should embrace the options provided under federal legislation in recent years which would enhance the number of women and children eligible for Medicaid coverage in order to assure early access to health care and reduce infant mortality.

- Congress should provide sufficient appropriations for the federal Health Care for the Homeless program to include provision of services to homeless people in rural communities which received minimal health care support during the first year of the Program.

- Congress should ensure that homeless women, infants and children are eligible for the WIC program in all states.

Given that the priority public policy direction is focused on the needs of the rural health service delivery system in crisis, it is also recognized that practical research is necessary to assure a solid understanding of the nature and extent of the rural health care problems. Therefore:

- There should be continued funding for rural health research centers through HRSA's Office of Rural Health Policy.

- Additional funds should be provided to the National Center for Health Services Research to support studies on rural health services based on the research agenda developed last year under a Congressional mandate.

Some of these recommendations would improve health care for both urban and rural populations given the fact that rural populations and urban poverty populations share common problems. While it is not likely that rural populations will move *en masse* to urban areas, it is probable that increasing numbers of high-risk segments of the rural population will seek necessary but locally-unavailable care by traveling to the city. Such a migration of problem patients, including poor minority group members, AIDS patients, or high-risk mothers has already been seen in some areas. This places additional burdens on that portion of the urban health care system which deals with uncompensated care, at a time when it can least afford such an increase. Rural residents and urban uncompensated care or medically-indigent populations have similar problems. They can and should work together to effectively advocate for policy changes of mutual benefit. Medically-indigent urban residents also face provider shortages, facility closures, and inability to maintain access to care in the face of rising costs. Common interest indicates that workable policy decisions be sought by working together toward a goal of improved health for all Americans.

Statement
of
Dr. David L. Chicoine, Ph.D., Head
Department of Agricultural Economics
University of Illinois

Before the Subcommittee on Conservation,
Credit and Rural Development of
the Committee on Agriculture
Hearing on Rural Development
June 22, 1989

Chairman English and members of the Subcommittee, I am David L. Chicoine. As Head of the University of Illinois Department of Agricultural Economics, I appear today in behalf of the Department and the University of Illinois. I congratulate you, Mr. Chairman, for calling this series of hearings on rural development, a subject of current and vital importance to the nation, and one which is of immense concern to the Land Grant institution of which I am a part.

We at the University of Illinois share the growing wide-spread recognition of the urgent need to restore economic and social vitality of our nation's rural areas. We believe, however, that as the Congress and the state legislatures address themselves to the needs of rural America, there is great risk that tangible and specifically targetted initiatives may be lost in the near-overwhelming weight and breadth of rural development issues.

For that reason, we are especially pleased that you have requested our responses to three specific questions: 1) What is our specific proposal or recommendation for rural development? 2) what role would we play in the implementation of that proposal or recommendation? and 3) how would the proposal or recommendation be financed? My statement will be brief and directly in response to those questions.

The Proposal

We propose the formation of a National Center for Farm and Rural Business Finance Research. The Center should be an ongoing program of comprehensive and discipline-based research, investigation, and education concerning the financing of this nation's farm and rural businesses. Its program should be national in scope and should address issues concerning a) the availability of capital and b) its effective use in the growth and development of farm and rural businesses.

I want to emphasize: this is a specific proposal for ongoing research and information targeted at the financing of farm and rural businesses. "Rural businesses" includes, but extends well beyond, the smaller universe of rural "agri-businesses." The goal of the research would be to provide understanding of: 1) effective management of capital within the firm, 2) financial markets, 3) government policies for financing rural business development, and 4) public and private capital providers. Of particular interest will be the interrelationships and performance of capital markets and financial institutions in meeting the credit needs of farm and rural businesses. The goal of information programs would be to inform and to educate farm and rural business borrowers and their credit providers in sound use and management of capital in their businesses and to support policy decision-making in both the public and private sectors.

We at the University of Illinois have observed closely the financial upheaval of the farm sector in the 1980s. We have considered the impact of those events upon the future of rural America.

To revitalize the economic health of rural America will require the effective functioning of financial markets to provide the essential capital and related services to farm and rural businesses. Yet for reasons familiar to this Subcommittee, there is cause to question whether this will occur.

1. **Farm and rural businesses will continue to present unique risks.** The traditional characteristics of agriculture -- capital intensive businesses, low liquidity, variable prices and production, seasonality, limited diversification -- present unique risk characteristics with important implications for the cost and availability of financial capital for farm businesses and for those rural non-farm businesses that dependent upon the farm economy.

2. **Confidence in rural America remains shaken by uncertain government** policy in the present tight-budget environment and the ongoing reevaluation of government commitment to farm and non-farm rural support programs.

3. **Concurrently, the traditional providers of capital to U.S. farm and rural businesses are experiencing unprecedented industry turmoil.**

- Banking deregulation of the 1980s hastened the integration of rural financial markets with national and international markets and brought significant interest rate variability.
- Commercial banks are experiencing structural changes involving bank holding companies, removal of geographic barriers to lending, interstate banking, expanded services and the emergence of regional and national lending markets.
- As a consequence of changes in the tax laws and rural banking, municipal bond markets for rural borrowers have tightened substantially.

- The Farm Credit System has only begun a financial recovery through significant downsizing of operations, dramatic organizational restructuring concurrent with growing interest in a broadened scope of lending in rural areas. They, like other credit providers for rural America, are feeling their way in a new and uncertain environment.

- Not yet "on the track", the Federal Farm Mortgage Corporation (Farmer Mac) holds the potential to significantly change the nature of long-term lending in rural areas. Presently, the extent of its impact upon the rural finance industry can only be imagined. The feasibility of expanding its services to include non-farm rural financing is already an issue.

- As the Federal government has continued to shift financing programs away from agencies such as Farmers Home Administration and Rural Electrification Administration toward private sources, state governments have responded in patchwork fashion but with generally increased direct and guaranteed funding programs for credit assistance to farm and rural business firms.

Economic and Policy Issues. These conditions present major uncertainties about the future course of rural business growth and development from a financial and credit perspective. They compound the urgency of economic and policy issues relative to farm and rural business finance:

- Will financial markets function efficiently to provide the essential capital and related services in rural areas?

- Reflecting on the financial stress of the mid-1980s in rural America, what are the lessons to be learned and what can be done to assure they are not forgotten?

- What are the most effective roles for banks, cooperatives, credit unions, community development corporations, Farm Credit System and Federal and state governments in the provision of adequate credit to farm and rural businesses?

- What are the links between these institutions and what are the overlaps in their missions? How might their efforts be better coordinated and in what ways might their internal performance be improved for the benefit of farm and rural businesses?

- How might limited Federal dollars be best leveraged to facilitate growth and development of farm and rural businesses?

- How might state and Federal loan guarantee programs be made more effective and how might bankers and borrowers alike be better schooled in the use of those frequently complex programs?

- Through what programs can farm and rural borrowers be better trained in understanding and applying principles of sound finance in their businesses?

We believe the importance of these questions and the uncertainty of the present environment argue strongly for an ongoing program of information, research and education national in scope, focused and equipped to bring tangible yet discipline-based responses to these and other issues concerning growth and development of farm and rural businesses from a finance and credit perspective. Our proposal is for the formation of a National Center to undertake that ongoing effort.

The Role of the University of Illinois

A National Center for Farm and Rural Business Finance Research should reside at a major land-grant university with the recognized capacity for farm and rural finance research but also with the capacity to apply that research through delivery of tangible and usable information and programs. It is at this Center that primary research and information program development would occur, but with the participation and contribution of regional support centers situated at other selected institutions nationwide. The program would be developed and carried out in coordination with the appropriate Federal and state agencies, financial institutions regulators, and rural, farm, and financial industry groups.

Delivery of research findings and educational programs would be carried out in cooperation with Extension Service, SBA or FmHA offices, local or regional development groups, and industry.

We believe the University of Illinois is well-suited to host the proposed Center.

o The proposal is built on the model of proven success in delivering tangible and relevant programs to farm and rural constituencies through broad local networks.

--Through its "Rural Route" program, initiated in 1985 and carried out through the efforts of Extension Specialists and Advisors, the UI team has provided timely, confidential financial counselling to more than 3000 farm families experiencing financial stress in more than 8000 personal or telephone conferences.

--With leadership from the UI, the Illinois Farm Legal Assistance Foundation (IFLAF) was established in 1985 in cooperation with the Illinois State Bar Association and the State of Illinois. Through IFLAF and its network of rural attorneys throughout the state, more than 2000 farm families have received state-subsidized legal assistance.

--Through the national award-winning "Your Financial Condition" program more than 9,000 Illinois farm families have received hands-on training in the development and understanding of financial statements, financial planning and management, and the legal aspects of borrowing. The program is now in use in 12 other states.

--The Agricultural Law division at the UI is recognized nationwide as an innovator and deliverer of consistently relevant programs, including as an example, the FarmTax Schools presented in 1988 to some 40,000 rural tax practitioners in 35 states.

- Resident at the UI is a unique and internationally recognized collection of scholars in the areas of rural finance, law, and rural government and economic development. Collectively, they are responsible for authoring more than eighty published articles related to farm and rural finance issues in the past four years.
- Among its unique resources, the UI has superb computer facilities (including two national centers for super-computing) and the most comprehensive library of any public university in the nation.

Funding for the Proposal

The Center is proposed to be a "three-way partnership" involving Federal and state governments and private industry. Initial Federal funding would be needed in the amount of $900,000 to establish and to institutionalize the Center. The Federal contribution would establish a base upon which an ongoing research and educational enterprise would be built drawing recurring support from State government, project activities, and the private sector. Covered by this amount will be salaries for professional and support staff and operating expenses for research and information gathering; net expenses of education and training programs; publication costs; computer software development and computer use; and facilities and administrative expenses.

We are pleased to note that the Illinois General Assembly is considering funding for a program of rural finance research at the University of Illinois for approximately $100,000 per year that would become a part of the National Center when established.

Mr. Chairman, our proposal responds to a specific yet very important facet of the rural development: the effectiveness of financial markets in meeting the capital needs of farm and rural businesses and the effective use of that capital by those borrowers. This proposal responds not only to the plight of non-farm rural business borrowers but to the financial needs of farm borrowers as well.

In large part, we are suggesting that it be a priority of the Congress to best assure that the financial havoc which has fallen upon farm and rural businesses over the past ten years not be repeated and that the financial lessons of this period extend and apply to farm and rural non-farm businesses alike.

We suggest the need is sufficient to justify the expenditure of Federal state and private moneys to fund a dedicated and ongoing program of research and information to that end. We believe that the growth and development of farm and rural businesses cannot occur without adequate and efficently employed capital and that the growth and development of farm and rural businesses are essential to the economic vitality of rural America.

Mr. Chairman, again I much appreciate this opportunity to appear and to testify. I will be pleased to respond to your questions.

RURAL ECONOMIC DEVELOPMENT

TUESDAY, JUNE 27, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Tallon, Penny, Stallings, Harris, Espy, Long, and Holloway.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Glenda L. Temple, clerk; James R. Lyons, and Joe Dugan.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The hearing will come to order.

Today marks the seventh day of hearings this subcommittee has conducted concerning rural development. As we bring our Washington, DC, hearings to a close this week, it is appropriate that we are certain of the direction we wish to pursue in the weeks ahead. Specifically, I am talking about the role that this Congress will be expected to play in bringing forth a comprehensive rural development bill.

In the testimony we have received to date, we know that Washington is not expected to hand down to the State and local governments a rural development bill guaranteed to cure all the economic ills throughout rural America. Instead, our role is that of a catalyst, to bring forth those people who, working together, can breathe life back into the rural communities.

Clearly, much work remains to be done and it is this chairman's opinion that we will make good progress toward these objectives as a result of the excellent testimony that we have received.

Throughout these hearings, we have included many individuals and organizations who are closely associated with rural development policy. This morning is no exception, as we will hear from yet another diverse panel covering several areas.

Joining us to share State and local perspective on rural development will be representatives from the Greater Minnesota Corp., the Mississippi Delta Commission, and the National Conference of State Legislatures.

No doubt, agricultural policy is a vital component to rural development and we have asked the National Grange to share some recommendations with this subcommittee.

Natural resources and the preservations are also an important aspect of rural development, and we, therefore, have the opportunity to receive testimony from the National Association of Conservation Districts.

Finally, we have asked the American Hospital Association to give us their input on this important issue. Participating with us today will be a representative from the association's section for small or rural hospitals.

I welcome our panel of witnesses this morning and we look forward to hearing your thoughts on how to improve the conditions in our rural community.

Ms. Long.

Ms. LONG. I have no statement, Mr. Chairman.

Mr. ENGLISH. Our first witness today is Mr. Terry Montgomery, who is president and chief executive officer of the Greater Minneapolis Corp., Minneapolis, MN.

Mr. Montgomery, if you will come forth to the witness table and have a seat, we would be happy to receive your testimony. Let me also say for all of our witnesses today that, without objection, your full, complete written testimony will be made a part of the record so please feel free to summarize that testimony.

STATEMENT OF TERRY MONTGOMERY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GREATER MINNESOTA CORP.

Mr. MONTGOMERY. Thank you, Mr. Chairman, members of the subcommittee.

For the record, I am Terry Montgomery, president and chief executive officer of the Greater Minnesota Corp., a public/private partnership designed to promote long-term economic development and job creation through applied research, technology transfer, and new product development.

The GMC, as we call it, has been described by the Chicago Tribune recently as the "Nation's most far-reaching State plan for forging a research and development partnership between private companies, State government, universities and research institutes."

As a unique model of entrepreneurial initiative, I predict that it will bring national acclaim to Minnesota and also become a lightning rod for Federal funding in the years ahead.

Capital now flows with the speed of light to wherever it is needed and stays wherever it is well treated.

Thanks very much for the opportunity to address means of revitalizing rural America. The need is great, the opportunities many, and the time is right to build a positive future for the next generation in rural communities throughout this great country.

The global economy is highly competitive and extremely disruptive to the traditional industries such as agriculture and manufacturing. Technology is rapidly changing and industries in rural areas must innovate or the communities they serve will slowly but surely disintegrate.

A renewed commitment must be made by Congress on behalf of rural revitalization. An excellent start will be the passage of the Agricultural Research Commercialization Corporation Act of 1989, authored by Congressman Tim Penny of Minnesota and Senator Kent Conrad of North Dakota.

I might add here that Dr. Bruce Merrifield, who serves as our vice president for research and development, began this initiative several years ago in his role as technology advisor to President Reagan while he was at the U.S. Department of Commerce. He is working with us now to implement the concept in Minnesota which can be, we believe, the national model for Federal funding.

This legislation would establish an independent, nonprofit corporation within USDA, entitled the "Agricultural Research Commercialization Corporation," or the acronym of which is ARCC. ARCC would aim at commercializing nonfood, nonfeed products, and processes using agricultural crops by bringing together such entities as manufacturers, financiers, universities, and public and private laboratories.

The goals of ARCC and its four to nine regional centers will be to strengthen the rural economy, create jobs, and expand the market for farm commodities and enhance U.S. competitiveness in international markets.

We find ARCC to be particularly innovative and exciting because it is patterned in part after the concept of the Agricultural Utilization Research Institute, a component of the Greater Minnesota Corp. This component, this Ag Institute, is a bold new effort to strengthen the future of Minnesota's agricultural industries. It will foster long-term economic growth through market-driven applied research and product development to find new uses and processes and add value to agricultural commodities.

Through its centers in four rural locations in Minnesota, Crookston, Marshall, Morris, and Waseca, the Institute is working to build partnerships between post-secondary educational institutions, agricultural organizations, financial institutions, public and private research facilities, and rural communities to meet future needs and improve the worldwide competitiveness of Minnesota agriculture.

I would like to call to your attention one feature of this institute which distinguishes it from other programs around the country and we believe around the world. Because it is established as a nonprofit corporation, it is free of State bureaucracy and has greater latitude in which to operate.

As a result, we are able to match funds from the Federal Government, from foundations and the private sector at will. For example, we are prepared to match dollar-for-dollar our current request before Congress of $5.1 million. Over the past year, this institute has developed a series of programs to fund the type of applied research in agriculture and development which can revitalize rural Minnesota and rural America.

Our first initiative was the Agricultural Utilization Applied Research Grant Pilot Program funded jointly by the GMC, USDA, and other public and private matching sources. The value of research funded under the program exceeds $1 million and the research is currently under way.

Examples of projects being researched at the moment include research to test the use of degradable plastic films incorporating cornstarch as a food wrap and the production of a road salt substitute from agricultural residues.

The second major initiative of the institute is the Agricultural Energy Savings Program. Under this program, $2 million in oil overcharge funds is being directed to research or demonstrate projects aimed at reducing energy use in production agriculture.

The latest initiative is the Agri-Product Research Grants Program, which will fund projects which are innovative and improve the value of farm commodities. We are making up to $1 million available for grants of up to $100,000 per grant under the program.

As with all GMC grant programs, merit reviewers will assist in evaluating proposals for their scientific merit, technical feasibility, and market potential.

The institute is assisted by a statewide advisory board consisting of representatives of agribusiness, commodity groups, and farm organizations. A key to the success of this program will be the exceptionally experienced management team we are recruiting to run the program. Dr. Virgil Smail, the executive director, is such a person. Dr. Smail, who holds a Ph.D. from Montana State University, has a wide range of experience in science, industry, and agriculture, including an assignment with the U.S. Agency for International Development.

The Agricultural Utilization Research Institute is one part of the Greater Minnesota Corp.'s five-point agenda. The other programs are, business innovation centers and technology field offices, advanced manufacturing technology centers, other applied research institutes, seed capital programs, and technology research grants.

As a market-driven public/private partnership, the GMC is a model for the Nation and can serve to lead and leverage Federal initiatives such as ARCC and build support at the community level.

Cooperation and innovation to develop technology for today and tomorrow are the keys to the future of rural America. We are here to work with you to build a sound future for our Nation.

Thank you, Mr. Chairman, and members of the subcommittee, for the opportunity to address these issues. I would be pleased to respond to questions or receive your comments.

[The prepared statement of Mr. Montgomery appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Montgomery, for a fine statement. We appreciate it very much. I think that you have a good suggestion with the Agriculture Research Commercialization Corp. I guess the one question that I would have is, What do you anticipate the cost would be in forming such a program as that and also, do you have any idea what it would cost to keep it going each year for it to be effective?

Mr. MONTGOMERY. Mr. Chairman, I might use as a reference point the Greater Minnesota Corp. and I have, by the way, in this audience, and he will be speaking to you later, one of the architects of this program, Representative Wally Sparby, of Minnesota.

The Greater Minnesota Corp. is funded by half the proceeds from the Minnesota lottery for 5 years. That is an estimated revenue of about $300 million. I would use that as an example of what we believe it takes to do it right in Minnesota and if you would then extend that to the Nation, you get some idea of the cost that such a project might entail.

Mr. ENGLISH. How much was that?

Mr. MONTGOMERY. $300 million over 5 years.

Mr. ENGLISH. For 5 years?

Mr. MONTGOMERY. Yes, sir.

Mr. ENGLISH. Do you have any idea what it would take to do that on a national basis?

Mr. MONTGOMERY. What I would like to propose, Mr. Chairman, and I have suggested this to the Technology Subcommittee of the Congress also, is that the U.S. Congress establish a program comparable to the Greater Minnesota Corp. by providing matching grants to each State, and I suggested that they start with matching grants of $100 million per State with the understanding that each State would match that, thereby creating a fund of $200 million in each of the States.

At the Federal level, it would be difficult for me to estimate what such a project might entail.

Mr. ENGLISH. Basically, you are talking about a $5 billion program?

Mr. MONTGOMERY. Yes, correct, Mr. Chairman.

Mr. ENGLISH. What about the States that have been hard hit financially? How do they participate? They don't have the matching funds. My own State, for instance, from an economic standpoint, they just don't have it. It is not there.

Mr. MONTGOMERY. Mr. Chairman, I think that is a very real and serious issue and I guess we would have to be creative in how we enabled each of the States to participate.

In the case of Minnesota, I believe our legislature was most creative in using the new program, the lottery, which was a new source of funds for that program. But I would think that, in the great spirit of ingenuity in America, we could figure ways of doing it that would be fair and equitable and workable for each of the States.

I might say, Mr. Chairman, that if we are going to make a dent in the problems of rural America and rural Minnesota, the effort must be substantial. I believe that is the point I am making. We have decided to do that in Minnesota.

Mr. ENGLISH. We have, of course, in the budget, $300 million this year. I have just seen a story quoting the Appropriations Committee who feel like things may be even tighter next year. Do you have any suggestions where we could come up with $5 billion a year?

Mr. MONTGOMERY. Mr. Chairman, I suggested to the Subcommittee on Technology at Argonne a couple months ago that one very realistic approach would be to scrap the superconductor/supercollider project which is about $5 billion now and will go much higher and redirect that funding to the States on a matching program I suggested, which I believe in the long term would have a much greater impact on technology development in America and in our States than that one project might have.

So, Mr. Chairman, that was my suggestion. There may be others and, by the way, I am pleased to see our Congressman from the First District join us.

Mr. English. But if I recall, I don't believe the money has been appropriated yet for that, nor is it even in the budget. So, it is not money that is there. We are going to have to go get money from someplace that is already in the budget and, I guess, I am still troubled about where we come up with $5 billion.

Mr. Montgomery. Mr. Chairman, I would suggest that—there has to be a starting point. Perhaps it is not possible to do it all at one time, but I believe it is a step in the right direction. We are not going to correct the problems of rural America and rural Minnesota overnight, just as they didn't occur overnight. We are prepared to be patient, but I think the commitment toward that objective has to be made.

Mr. English. But you understand our problem. We have to find the money for any program that we come up with. It is not the case that we are simply going to increase the budget deficit. Gramm-Rudman is not going to allow us to do that. So that is one of the primary difficulties that we face. We don't have money.

It appears to me one of the problems that we are going to have is trying to create programs without any additional cost. We are going to have quite a struggle on that. We would appreciate it if you might focus a little bit on that and perhaps you could get us some information back as to how we could more fully utilize the resources that we have available to us, maybe redirect. Any help that you can give us there would be more appreciated, Mr. Montgomery.

Mr. Montgomery. Thank you, Mr. Chairman, we will try to do that.

Mr. English. Thank you.

Ms. Long.

Ms. Long. Thank you, Mr. Chairman.

Mr. Montgomery, in your proposal, you are proposing approximately $100 million per State. Given that some States are more rural than other States, might it be reasonable to fund at different levels for different States, depending upon population density and some rural index?

Mr. Montgomery. Mr. Chairman, Madam Congresswoman, precisely. That would be, I believe, left to the creativity of the Congress working with the States to decide. I believe that there are ways of doing it if we all believe that the commitment is sufficient and the need is great.

Ms. Long. How long has your corporation been in existence?

Mr. Montgomery. Mr. Chairman, Madam Congresswoman, we established the corporation in July 1987. It was funded in 1988. It is now up and running in most respects, though some parts of the program are still being phased in.

Ms. Long. I have no other questions.

Mr. English. Mr. Penny.

Mr. Penny. Thank you, Mr. Chairman.

Welcome, Terry, we appreciate your presence here.

I have maintained from the outset that one of the most important initiatives that we can undertake for rural development is to find new uses for farm commodities. That has multiple benefits. It creates new demand for farm products that should improve the market picture for our farmers and give them an opportunity for a better price and the processing of these products in our rural communities can create jobs and keep our rural communities alive.

We are a leader in Minnesota with this effort with AURI. I am looking for a little bit of assurance that the private-sector interest is, in fact, there and maybe you could share with us in a little more detail the amount of involvement that you have in the private sector and the kind of interest that has been exhibited in the work of AURI in Minnesota. Because if we are going to replicate this on a national basis, we certainly don't want to set up a program and then find out that we are pushing a rope, that there is really no private-sector interest in matching this effort with money of their own.

Mr. MONTGOMERY. Mr. Chairman, Congressman Penny, thank you. From the beginning, it was assumed that the Greater Minnesota Corp. would be a true public/private partnership, and to that end, each decision which has been made has been heavily influenced by the private sector.

For example, our board of directors on the Greater Minnesota Corp., an 11-member board, is all private sector. The Agricultural Utilization Research Institute steering committee, which has 26 members, is widely representative of agriculture and the private sector.

Each of the projects we have funded to date, and all of the projects we will fund in the future, require matching funds from the private sector, and you recall, Congressman Penny, that the funds which you, Congressman Weber and others helped get for us last year from the Congress were matched on a one-one-one basis. In other words, one-third Federal, one-third GMC, and one-third private sector. That leveraged some $200,000 to nearly $1 million because we were able to get more than one-third from the private sector.

So I believe that is the kind of approach we are taking and we see very positive results from that kind of partnership.

Mr. PENNY. You have four centers established. Did you, before I arrived, outline for the committee the distinction of purposes within those four centers? Because initially, we were talking about one office, and now, for a variety of reasons, we have gone to four centers.

Mr. MONTGOMERY. Mr. Chairman, Congressman Penny, I did not go into detail out of respect of the time limits that we had been asked to follow, but I would be pleased to respond to that.

The four centers were recommended by the best experts in this country. SRI International was our consultant. We consulted widely throughout America and the world, for that matter, and the conclusion was that bringing the applied research closest to the community, where the rubber meets the road, will be the most effective way of conducting applied research and technology transfer for agriculture in the future.

The early results show that was precisely the right decision. The results we are getting at all four centers, first of all, are very strong and very positive. Last week, we had 16 inquiries at the

Morris Center, for example, on ideas for new technology involving food processing. That was just one of the centers in a space of a couple of weeks.

The reason for that is that technology moves very rapidly anyplace these days. It can be done in rural America as easily as in the great urban centers of this country. If we can bring the applied research down to the local level, match the university expertise we have with the entrepreneurs in those communities, we will get rapid results and good results.

I might use just as one illustration the little community of Hoffman, MN. Hoffman, MN, is a town of 700 people in Douglas County in the northwest central part of Minnesota. It is a town that has been going through the convulsive repercussions of the downturn of agriculture for several years. They took a small creamery, which was no longer being used, and with a couple of very bright entrepreneurs and local backing from the local REA, as well as other financial sources, were able to put together a firm called Hoffman Aseptic Packaging, which is using state-of-the-art technology—in fact, it is imported from Germany and France because it is not available in the United States—to develop this new process called aseptic packaging, which is the fastest growing part of the food processing industry.

That firm now is headed toward 35 employees with expectations of going to as many as 500 employees over the next several years. Every reason to believe they will achieve that and that is being done in a town of 700. Now, that is a win/win situation for rural America because they are using rural agricultural commodities from the area; they are using state-of-the-art technology, exporting throughout the United States already and planning to export abroad. They are good-paying jobs in high-tech industry in rural Minnesota.

Mr. PENNY. GMC's involvement there was——

Mr. MONTGOMERY. The Greater Minnesota Corp. brought those players together and we will be, we believe, funding some additional research for them later this fall through the Ag Institute.

Mr. PENNY. So you weren't involved in any way with loans or grants to finance the business itself, but simply pulling people together, identifying resources and maybe, down the line, you will be involved in some research efforts that benefit that facility?

Mr. MONTGOMERY. Mr. Chairman, Congressman Penny, precisely right. Our mission is not to do traditional business financing. Our mission is explicitly to do research and technology transfer. We also are a catalyst to bring those parties together and, in that case, we did that and now we believe that there is good reason to put additional research funding into a special project to expand that industry.

That can be replicated. I could give you numerous examples throughout the State. Congressman, you know of some in your district. I selected that one only because that is the most current one. I learned about that only yesterday.

Mr. PENNY. We are limited within this committee in terms of the authorization level that we can spend. The suggestion you made about the supercollider and computer is under the jurisdiction of another committee. I admit that the money is in next year's budget, but trying to cross-walk that to make the money cut there available here is something that we really should have done a couple months ago as we debated the broad guidelines of the budget.

But I do share your view that in this time of fiscal constraint, if we are going to make appropriate amounts of money available for new initiatives, we have to find the money somewhere. If it is not allocated in our part of the budget, we have to do a trade-off with some other area.

We may get an opportunity this very week, in fact, in the energy and water appropriations bill, to make some reductions in that other appropriation. If that is successful, we might be able to argue down the line for the use of those dollars for some rural development initiatives. I am not assuring you that that can happen, but your point is well taken. That it is a matter of setting priorities. And I think in terms of its payoff for all of the rural communities in our Nation, that this would be a wiser investment.

One other concern we do have, though, is providing some business finance and that is a tough one. We really don't seem to draw capital into rural areas right now. Given the fact that GMC is not really geared to the financing of business development or business expansion, how do we address or can we effectively address the issue of supporting the availability of funds for rural development venture?

Mr. MONTGOMERY. Mr. Chairman, Congressman Penny, I suggest perhaps the Minnesota model once again, whereby, as you know, Congressman, we have a State department of economic development in our State called trade and economic development, which does business financing and that is done in concert with the Greater Minnesota Corp. In other words, a coordinated approach.

The Greater Minnesota Corp. provides the applied research and technology funding and the State department of economic development provides business loans and business grants and other kinds of traditional business financing.

We believe that coordinated approach is working very effectively there. You might want to consider that same model at the Federal level or perhaps, as I suggested earlier, use kind of a matching grant program with the States. Increasingly, I am intrigued by this idea of matching grants because we can see the results we are getting with that program and I would like to see it done more extensively.

Mr. PENNY. Mr. Chairman, I have no further questions. Again, I appreciate the testimony.

Mr. ENGLISH. Thank you very much, Mr. Montgomery, we appreciate it and I think this was a fine suggestion.

Mr. MONTGOMERY. Thank you, Mr. Chairman.

Mr. ENGLISH. Our next witness is Mr. Steven Meyer, who is the director of government affairs of the National Association of Conservation Districts here in Washington, DC.

Mr. Meyer, we want to welcome you and would be happy to receive your testimony. As I mentioned earlier, if you would care to summarize your testimony, your written testimony will be made a part of the record.

STATEMENT OF STEVEN R. MEYER, DIRECTOR OF GOVERNMENTAL AFFAIRS, NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

Mr. MEYER. I will try to speed things along, Mr. Chairman.

Mr. Chairman, Mr. Penny, my name is Steve Meyer. I am the director of governmental affairs for NACD.

NACD represents the 3,000 soil and water conservation districts and the more than 15,000 men and women in the country who serve on the district governing boards.

The district's primary goal is to provide leadership to natural resource development and protection programs at the local level; however, part of this leadership responsibility entails assisting with the development of a local economy which is healthy enough to support their goals.

A healthy rural economy is important to all of us. It provides us jobs, provides jobs to the citizens of the area, it allows local governments to generate revenues sufficient to provide desired services. It provides our citizens with pleasant, enjoyable places to live.

We have three suggestions for the committee today on rural development. The first suggestion we have is to expand the use of the existing RC and D concept. In 1981, Congress formalized a program within the Soil Conservation Service of the Research Conservation and Development Program. These areas are set up—multicounty areas are set up—to bring together local governments, State governments, Federal Government, and the private citizens to promote rural development.

They are an excellent example of how seed money from the Federal Government can be multiplied using these other sources. However, if there has been a weakness in the current RC and D Program, it is the fact that it has revolved around resource conservation objectives. While we do not oppose these conservation projects, we also recognize that every rural development initiative is not going to have a conservation objective as its cornerstone.

Therefore, we would suggest the development of a program expanding use of the RC and D concept to take the rural development programs that they use to other areas outside of rural RC and D, formalized RC and D areas.

The essential component is to provide a catalyst to local citizens to bring them together to join in rural development initiatives. In our opinion, that catalyst has been the RC and D coordinator. This is a person whose job it is to bring together those interests in the county and the multicounty areas and to identify potential rural development projects.

While we firmly believe that if the Federal Government is serious about initiating an expanded rural development program, we need to have new resources made available to provide additional rural development coordinators. However, since we all realize that the Federal deficit has placed limitations on new funding, one way to accomplish the hiring of additional rural development specialists on the short term would be redirecting of existing funds. We would suggest possibly taking a look at the existing funds used within the RC and D account of USDA that are used for financial assistance on projects in RC and D areas, using these to provide technical assistance instead of financial assistance for the short term.

One of the other things that we think needs to be very clear on this point is, as we hire our rural development coordinators, we need to make sure that it is critical that we have the type of person we need in those positions across the country. In the past, USDA has drawn from their technical staffs to staff the RC and D Program. We think that it is important that we make a move now to find someone who has been trained in rural development, fundraising, grant-writing, and entrepreneurial management to make sure that these rural development coordinators are successful in getting projects going in their area.

Our second suggestion is, that we need to continue to look to utilizing existing natural resources in rural areas as an important component of a rural development program. After all, when one thinks of rural areas, our minds turn to the pastoral scenes of forest streams, wildlife, rangeland, and farmland. We know we are not suggesting anything new; we just want to ensure that as we move forward, we don't forget this valuable component of rural development.

We have also seen that one of the problems in the past with our rural development initiatives is that they have been sort of scattered. There has been no one place that a person could go who is looking at a rural development project to find all the answers. So what we are suggesting is the establishment of a national rural development center. This center would be an information-sharing center that would gather information from across the country on availability of raw materials, possible uses of those raw materials, including research such as the previous witness spoke about, where these materials are located at, information on local infrastructure and possibly even provide a source of start-up capital, start-up and operating capital.

We believe that America's conservation districts could assist the U.S. Government in providing and cataloging these resources and providing a source of information to everyone across the country on where these resources are available.

In order to provide a source of venture capital to start up these rural development enterprises, we believe that the center should be developed in a way to allow and even encourage investment by the private sector in rural development enterprises. We have not provided you with any specific methods on how to do this, but we think the important thing is to ensure that the private sector understands and has an opportunity to invest in rural development and doesn't limit the Federal expenditures.

Our final suggestion for rural development policy for the Federal Government is establishing a single USDA Rural Development Agency. Again, what we see within USDA is there are several agencies with rural development responsibilities. The Soil Conservation Service has the RC and D Program; Farmers Home Administration has a wide variety of loan and guarantee programs designed to promote rural development. Even the Forest Service has programs within the State and private forestry program to talk about development of forest products and their new and expanded uses.

From our viewpoint, this appears to be somewhat inefficient. A person looking for an answer knows not where to go. Even within USDA, there is no one person with an answer. We believe that we should take the existing RC and D Program and take all of the other rural development programs within USDA and put them under the single RC and D Program.

We believe that that efficiency will help move forward rural development in this country.

Thank you for the opportunity and I would be happy to answer any questions.

[The prepared statment of Mr. Meyer appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Meyer.

I think that you made an excellent point with regard to the issue of having one place in which rural communities could go for information and assistance. That is one of the things I have certainly found in my part of the country, is that very few of the communities have the resources to hire someone to go out and, in effect, do this job.

There are numerous programs available that may be of assistance, but if you don't know where the programs are, you don't know how to apply for the programs, you don't receive any assistance for it, and there might as well be no program because it just flat doesn't do you any good.

I think that that may be one area where we may want to focus some attention on and see if we can't help solve that problem. I appreciate you bringing that to our attention.

The other is that we do have a lot of programs. There is a lot of money that is being spent for rural development, or at least being made available for rural development, but it doesn't seem to be targeted. I think you did an excellent job in pointing that up. It seems to be rather scattered and hit and miss and no real focus as to trying to make sure that those resources had maximum impact. I think that was an excellent point.

You made a good statement, and we appreciate it very much.

Mr. MEYER. Thank you.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

In the area of conservation, there is potential on some of our conservation acres, the CRP, for example, to have the trees or the shrubs that are planted there produce some kind of marketable product. My understanding is that that is not expressly prohibited under the current law, but I am not sure that it is being encouraged, either.

What is your general feeling about planting certain hardwoods that may produce a marketable commodity on those conservation acres and providing another incentive for those acres to be set aside and kept from row-crop production, but an added enticement for farmers to keep those acres out of row-crop production by allowing them to market something else off those acres?

Mr. MEYER. Our organization agrees with you, Mr. Penny, that we think that as we move forward with the Conservation Reserve Program, as we move toward the end of those 10-year contracts, if we are going to promote proper conservation, continued conservation beyond the end of those contracts, we need to do something with the infrastructure and provide the landowner with some type of economic return.

If there was a weakness in the 1985 farm bill, it was that it did not address that issue. We simply set aside those lands for 10 years without ever really thinking about what we are going to do at the end of those 10-year contracts. The fact is, our organization has set that as one of our priorities for the next 4 years, to begin to take a look at those infrastructure questions and how we can continue to provide some type of incentive to leave those lands in a conservation use, yet provide a return to the landowner at the end of the contract.

Mr. **Penny**. I can think of a couple examples in my own district, but what does your organization recognize as some of the likely commodities that we could allow to be harvested off of those conservation acres without defeating the essential conservation purpose?

Mr. **Meyer**. The obvious answers are some types of wood products. As we go through a thinning process or even a plantation process on some of those acres, or grazing is the other easy answer, livestock utilization of the grasses that are out there. We also understand that there are some innovative questions out there.

One of the things I pointed out in my written statement is we have an RC and D in Indiana that has been looking at developing a type of grass that can be planted as a conserving use. Then as you go out at the end of the season and harvest the grass material, they bring that back in to an ethanol-producing plant, using the grass as the vegetative material to produce alcohol, the alcohol then going into gasahol production.

So I think that there are a number of those kinds of things that we can look at out there and I think our charge is to look at some innovative ways besides just grazing and cutting of timber out there that we can utilize those resources and maintain a conserving use on those acres.

Mr. **Penny**. You indicated the need to coordinate various entities within the Department of Agriculture that are involved in rural development in some way. How about the coordination beyond the Department of Agriculture because there are other agencies that may not have a delineated purpose to finance rural enterprises, but they certainly are involved, SBA, EDA, and others? Do you have any idea how we might assure that we don't have a duplicative effort going on?

Mr. **Meyer**. I think that is one of the reasons we suggested some type of national center, natural rural development center. We haven't really put all the meat on the bones, but I think, at least in our minds, we are looking at a center, quasi-private government center, that would be—their charge would be to coordinate those efforts. We are looking at a place that the private citizen can come to and say, whether it is information on materials available or government programs available, that they are not out there struggling, trying to decide, Do I go to the Department of Agriculture? Do I go to the Department of Commerce? Do I go to the Department of Treasury? Do I look to the U.S. Trade Representative to provide me with export opportunities, but a single place they can go and we can have the experts available there that say, this is the kind of idea I have, fine, this is where you take it to.

Again, I think we are going to need some type of single agency, if not a private center, a private/public center that is going to have that kind of responsibility to coordinate all of our programs.

Mr. PENNY. How do you see that as differing from the structure of the Greater Minnesota Corp., which has several purposes? One is to serve as somewhat of a clearinghouse. Another is to try to take research and get that research applied in terms of private sector applications. Another is try to pool resources to assist the small entrepreneurs. Do you see this as being distinct from what a group like that would do or very similar to what we are trying to do in Minnesota?

Mr. MEYER. I think it would be very similar, except on a much larger scale. Again, the problem that I think we see from our membership's standpoint across the country is we have several things like the Minnesota experience going on out there and no way to tap into what Minnesota is doing if you live in Missouri or if you live in south Georgia or Missouri and how do we make sure that that information, whatever they are doing, if they have developed a new research technique or a new utilization technique in Minnesota, how do we make sure that it isn't just Minnesota that has access to that, but how do we make access to that information available across the country?

That is why we think there needs to be some type of national center to tie all of these efforts together and provide the communication links across the country.

Mr. PENNY. What about the staffing level for your division? If we were to grant you this development function and increase our expectations of you in this regard, What kind of staffing are we talking about?

Mr. MEYER. You have asked the toughest question of all, obviously. We have not put that much—taken the time to get into that much detail, but we would be happy to work on it.

Mr. PENNY. And a related question is, Why you, instead of regional governments, which exist within many States, instead of the Extension Service, which, of course, is in every county across the country? What makes the conservation districts more appropriate than some of the other conduits that we could go through to achieve these goals?

Mr. MEYER. I want to make sure that we are—that it is clear that I am not suggesting that NACD be that national rural development clearinghouse. Quite the contrary, we don't have the staff or facilities or ability to do that.

But we simply are offering that as a suggestion and also to help with the conservation districts. The districts and NACD would be able to help this national center on doing some identification, but we are only going to be a small piece of the entire puzzle. We are going to need the extension agents out there to help do the information-gathering. We are going to need the State research services to help funnel all the research information back into a national center.

I think the center is going to have to be a new entity, not something tied on to an existing entity. I think we are going to have to start from scratch on this one to make it effective.

Mr. **Penny**. The legislation I have introduced would call for an ag research commercialization corporation, which would be a national center of sorts, and then we would identify up to 10 regional offices which would then network within that region to try to pull together all the various players to facilitate research, to do the cross-walk to get that into product development and to assist in technical ways or perhaps pooling resources to get some funding in there to get that business started.

Is that consistent with what you are recommending? Is that kind of structure consistent with what you are looking at?

Mr. **Meyer**. I think your proposal is very consistent, and again, I think one of the important things that we see is to provide a mechanism to get that private venture capital, if you will, invested into rural development, a central place that folks can buy stocks or bonds or whatever the mechanism is, to provide private capital so that we are not relying strictly on Federal Government expenditures to run our rural development machine out there.

Mr. **Penny**. Thank you, Mr. Chairman.

Mr. **English**. Mr. Espy.

Mr. **Espy**. Thank you, Mr. Chairman.

In answer to Congressman Penny's question, he suggested—or he asked you—Why would you think that NACD should be the authority for all rural development initiatives? You answered that you didn't think that it could be because you didn't have the staff or the wherewithal to do it, but I noted in your testimony on page 4, you say that:

> NACD believes that all of the USDA rural development programs should be combined under the RC and D Program with total authority for all rural development initiatives. This should lead to more efficient and effective rural development programs.

Is that not a contradiction with what you were saying?

Mr. **Meyer**. No. NACD is a private, nonprofit organization. It simply represents conservation districts on national issues. The RC and D Program is a statutory program developed under the Department of Agriculture. We think that instead of having the SCS RC and D Program, the Farmers Home loan and grant programs and the Forest Service programs or wherever they are at, we should have a single entity within USDA that all USDA programs are under, instead of having a multitude of agencies handling rural development programs.

Mr. **Espy**. OK.

Mr. **Meyer**. Did I make myself—I get the feeling I didn't make myself clear.

Mr. **Espy**. Not certain, though——

Mr. **Meyer**. NACD is an organization, is a private, not-for-profit corporation. We are a nongovernmental agency. We are simply here as advocates for our membership. One of the things our membership is saying is they utilize the USDA programs, but they are frustrated because at times they have to deal with the Soil Conservation Service; at times they have to deal with Farmers Home; at times they have to deal with the Forest Service. It seems inefficient to them to have to deal with a whole myriad of USDA agencies when they are all trying to accomplish the same thing as rural development.

Our suggestion, as a private organization, is that Congress should make a move to take all of those individual pieces of rural development within USDA and combine them within a single place, so whether or not you are looking for an RC and D coordinator, help on a forestry issue, a loan or a grant that is currently a Farmers Home Program, that you only go to one single agency. You don't have to decide which agency to go to.

Mr. ESPY. I understand, but we have heard that from other witnesses, but each one suggests that their entity would be the one to control and coordinate.

Let me ask you, sir, Do you have any thoughts on creating some sort of a rural development bank to guarantee loans for small- and rural-business owners or to become a secondary market for loan portfolios of local banks? Is there anything like that included in your testimony?

Mr. MEYER. I think that could be an extension of our idea of trying to provide—again, we do not give any specifics, but we think there needs to be a mechanism for the private sector to invest and provide the venture capital out to rural development. I think this subcommittee is one of those sources that we look to for the expertise on how that is going to be done, but we think—so we can't tell you how it should be done; we just know that it should be done.

Mr. ESPY. Thank you.

Mr. ENGLISH. Mr. Holloway.

Mr. HOLLOWAY. No questions, Mr. Chairman.

Mr. ENGLISH. Mr. Harris.

Mr. HARRIS. No questions.

Mr. ENGLISH. Thank you very much. We appreciate it very much. Mr. Meyer, you have given us a fine statement.

Mr. MEYER. Thank you.

Mr. ENGLISH. Our next witness is Mr. Leroy Watson, who is legislative representative of the National Grange, in Washington, DC.

Mr. Watson, we want to welcome you, and as we have told our other witnesses, if you care to summarize, your complete written testimony will be made a part of the record.

STATEMENT OF LEROY WATSON, LEGISLATIVE REPRESENTATIVE, NATIONAL GRANGE

Mr. WATSON. Thank you, Mr. Chairman. On behalf of the 330,000 grange members nationwide, I would like to thank you and your subcommittee for inviting us to testify today on the important issue of rural development.

Today, The National Grange's rural development proposals center on six major areas: transportation, health care, agriculture, communications, business development, and education. These proposals reflect the adopted National Grange policy and they also draw upon successful examples of community development that have been demonstrated year after year by thousands of local granges across the Nation participating in the National Grange community service program.

Transportation. Last November, in his annual address to the National Grange's 122d annual convention, National Grange Master, Robert Barrow, spoke at length about the transportation crisis that is facing rural America. He said, "Rural roads are not only essential to the movement of farm goods to market, but they are essential to the vitality of our Nation's economy."

According to USDA's Office of Transportation, locally maintained rural roads constitute 56 percent of all U.S. road mileage, yet only 20 percent of the local rural roads and 40 percent of our local rural bridges are eligible for direct Federal highway trust fund assistance. Grange members across the Nation are convinced that rural America is back in the mud again. Our organization is launching a major new public educational and political initiative to bring the plight of local rural roads to the attention of both Congress and the Nation. We are calling it the local roads and bridges project.

We will be in direct contact with our 4,000 local chapters across the Nation to assist them in building local coalitions and targeting legislation reauthorizing the Highway Trust Fund in 1991 to better accommodate the needs of local rural roads.

The vastness of the rural road network means that even with increased resources, priorities will have to be established. For this reason, we are calling today for a small portion of Highway Trust Fund moneys to be provided to State highway departments for transportation planning and priority-setting for each State's entire rural road network, both on- and off-system.

Highway Trust Fund moneys for urban and metropolitan transportation planning have been available for several years, but rural transportation planning has been sorely neglected. It is time for the Federal Government to provide funding for all States to move in this direction.

We also believe that improved rural mass transportation cannot wait until 1991, and we are strongly supporting H.R. 368, introduced by Representative Virginia Smith, to amend the Urban Mass Transportation Act to increase the percentage of funds that are allocated to rural areas.

Health care. Last year, Mr. Barrow's address also discussed rural health care needs. He said, "We who are committed to rural development know that access to adequate health care facilities is essential to economic development."

In a recent report by the Senate Select Committee on Aging, they stated that 159 rural hospitals in the United States have closed since 1984, 43 of those in the past year or so. Eighty percent of all the hospitals that lost money in 1987 were rural hospitals. If this trend continues, the Senate Select Committee predicts that 600 additional rural hospitals may close.

The grange has been a leader in providing answers to rural health care problems. One method that has been tried in rural parts of Washington State has been the establishment of public hospital districts to provide hospitals with local tax revenues. Local subordinate granges in Washington State have been recognized for their active support of the public hospital district campaigns.

Dozens of State granges and county granges offer their members competitive health insurance programs or health maintenance organizations. There are also a number of grange retirement communities across the country that are designed to provide a higher level of personal and medical care for older grange members than total independent living arrangements could.

We believe we need to give farmers and other self-employed people the same tax benefits for health insurance that corporate employers have. While corporations can deduct 100 percent of their employees' health insurance premium costs, farmers and other self-employed people may deduct only 25 percent of those premium costs.

The National Grange, therefore, is supporting H.R. 2121, sponsored by Representatives Dorgan and Brown, which would expand the current 25 percent deduction and cover 100 percent of the premium costs. We are also strongly endorsing H.R. 762, introduced by Representative Pickle, which would, in part, eliminate the rural urban differential in medicare payments.

Agriculture. While we no longer believe that simply putting a profit back in agriculture will resolve all of rural America's problems, we are still firmly convinced that rural development should have a strong agricultural component. For too long, agricultural policy has given scant attention to the small U.S. farmers. Our emphasis has been on production, rather than people. Yet there is compelling evidence that from the perspective of rural development, it is time to reexamine the questions of farm structure.

Since 1978, the National Grange has advocated targeting the direct benefits of Federal farm programs to small- and medium-sized family farmers. Targeting benefits to these farmers would assure the United States of a diverse, competitive and efficient agricultural sector and would help enhance rural economic activity.

Congress should establish a comprehensive policy of targeting the direct benefits of Federal farm programs to our small- and medium-sized family farms in the upcoming farm bill.

One Federal program for small farmers that needs immediate attention is an expansion of the USDA's Office of Small Scale Agriculture. Buried deep within USDA's Cooperative State Research Service, the Office of Small Scale Agriculture is the only entity within USDA which specifically attempts to provide service to our Nation's small farmers.

Sadly, most other USDA agencies make little or no attempt to structure their product services to be appropriate to small farmers. Small farmers need a strong, well-funded ombudsman office in the USDA that has the resources to translate a greater share of the USDA's services to the two-thirds of U.S. farmers who are small farmers. For our part, the National Grange plans to focus greater attention on the needs of small- and medium-sized farmers.

Communications. Ever since championing the fight to establish rural free delivery mail, the National Grange has remained committed to the philosophy that rural Americans are entitled to enjoy the same basic access to communication technology as urban Americans. One example of this philosophy can be found in Washington State, where the Washington State Grange has been participating in a pilot project with the U.S. West Corp. to provide single-line service to rural residents at the same costs and charges that are charged to urban customers. We believe the Washington State

Grange and U.S. West Corp. pilot project could become a model for similar programs in other States.

This year, the National Grange is supporting H.R. 2437 and its companion Senate legislation, S. 1068, the Cable Competition Act. H.R. 2437 would improve television programming competition, would prohibit discrimination by cable programmer and would permit telephone companies to provide video programming.

Allowing telephone companies to provide cable information services will offer a greater number of rural Americans an opportunity to become part of the information age and will further the goal of universal communication services for all Americans at little or no cost to the taxpayers.

Since 1985, the National Grange has offered its members discount subscriptions to a comprehensive agricultural and farm computer base system. We believe that systems such as the one that the National Grange now offers its members through the AgriData Co. of Milwaukee, WI, will become more important to the future health of rural communities.

Business and economic development. Economic diversity and a renewed entrepreneurial spirit will be critical to the future success of rural America. Federal agencies that own or regularly acquire land should be required to conduct a comprehensive Federal land inventory and procurement review directed toward establishing Federal land-use policies that enhance rural economic opportunities.

In 1987, the President's Commission on America's Outdoors noted that there were numerous opportunities for public/private, commercial partnerships on or near existing Federal holdings. Decommissioned military bases could offer nearby rural businesses prime locations and opportunities.

Major Federal property-owning agencies, such as USDA, DOI, DOD, and GSA, should be required to conduct a property inventory review and report their findings to Congress within 2 years. Each agency should be directed to devise a 10-year plan that will better utilize the Federal land under their jurisdiction to enhance rural economic and business opportunities.

Such plans should be consistent with the existing agency missions, but should not preclude the appropriate sale, swap, or release of land to private business. In fact, Congress should ask these agencies to set a goal of at least $500 million in additional Federal revenues from the sale, swap, or lease of Federal properties for appropriate rural development by the year 2000. This $500 million should then be reapplied to Federal rural development programs.

As agencies develop their 10-year plans, Congress should direct the agencies to include steps to avoid the unnecessary economic dislocation of rural communities and private businesses.

Government lending and capital programs, administered through the Farmers Home Administration, Rural Electric Administration, and the Small Business Administration will also be vital to successful rural development. The National Grange supports the directions that are being taken to expand the role of these agencies in S. 1036, the Rural Partnership Act.

It may come as a surprise to many people, but the grange has a history of sponsoring business-related activities on the local, State, regional, and national level. Through these efforts, former and current grange-affiliated companies have become household words and successful business entities. Over the years, some grange enterprises have failed, as well, but today's local grange members still have access to a wide range of grange-sponsored services and products, as well as substantial grange-sponsored capital investments in local communities.

Members of Congress should rest assured that grange members across the Nation are prepared to step in to offer their local communities expertise in leadership in rural economic and business development.

Education. The grange's "Declaration of Purposes," which expresses the common principles accepted by every individual who joins the grange, states in part: "We shall advance the cause of education by all just means within our power."

Our concern with rural education dates from the founding of our organization. Rural schools are often financially hard-pressed to prepare their students for a productive life in the 21st century. We believe that one answer to the rural education program is the "star school concept." These schools would employ cost-effective advanced telecommunications technology, which would allow a single instructor to reach more students over a broad geographic area. It would also give students an opportunity to participate in a greater number of challenging elective subjects that cannot currently be justified in smaller rural school systems. A star school program is currently part of the Senate's Rural Partnership Act.

The grange is deeply committed to educating our rural youth. Each year, our programs include over $100,000 in scholarships and low-interest loans and $35,000 with which to coordinate State and local programs for young grange members. Local granges cooperate with vocational agricultural student organizations and have distributed thousands of copies of the National Grange's deaf and hearing-impaired education program for fourth-, fifth- and sixth-graders.

We also believe there is a pressing need for adult education programs in rural communities. One example is job retraining programs. New emphasis on job training in rural areas would allow displaced rural workers to find new employment. We support dedicating a percentage of the existing Federal job training programs, such as the Job Corps and the Job Training Partnership Act, to be used specifically to expand the training opportunities of rural residents.

Another example is volunteer leadership training. Last year, the National Grange sought to address the problem of volunteer leadership shortages in our grange communities. Designed in conjunction with the University of Maryland's Extension Service, the grange leadership membership program is premised on the assumption that local granges that work harmoniously together and that are viewed in their communities as being active problem-solvers will attract new members and, in turn, provide rural communities with new leaders who address local problems.

The grange's LM program is currently under way in 10 States and more State granges are expected to participate in the program over the coming months. We believe the Congress should provide additional direction to rural education-related organizations, such as the Extension Service, to continue to develop and distribute adult volunteer leadership educational materials.

Volunteers will be a key to successful rural development. Ongoing education will be the key to successful volunteers.

Thank you very much, Mr. Chairman, and that concludes my summary of the remarks. I would be happy to answer any questions.

[The prepared statement of Mr. Watson appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Mr. Watson. We appreciate that.

One of the things that I picked up, with some people, at least, there seems to be a feeling that there is a conflict between agriculture and rural America, that there is a conflict between farm organizations and those people who want to develop rural communities.

Have you noted any such conflict?

Mr. **Watson**. I think there are some differences in types of conflicts, depending on where you are in the country. We have discovered that the greatest call for cooperation in rural development opportunities are coming from the traditional grain-belt heartland areas of the country, while we are, on the other hand, discovering some resistance to rural development on areas along the Nation's coasts where there is some fear that increased development opportunities are a threat to continued agricultural production because of the encroachment of suburbia and cities.

So, from our perspective, we are seeing more of a conflict between the two goals in our membership States that are along the coasts and that are looking at the expansion of urban and suburban areas and they view that as a threat to their traditional agricultural occupations.

Mr. **English**. So basically, where you found that to be the case is in areas that are developing on their own——

Mr. **Watson**. That is right.

Mr. **English**. That is in areas that really don't need rural development per se.

Mr. **Watson**. That is right, and a lot of folks there are worried about such things as expanding sewer and water facilities because they see that as an expansion of suburbia and more houses and a loss of—not only the loss of the political control of their communities because of the expansion of population, but the loss of the quality of life. So one of the things that we have tried to balance is opportunities for communities to take charge of their own development destinies.

We believe very strongly that that has to be a major part of any rural development proposal, that the communities have to have a say. They have to be able to accept the amount of growth and the type of growth that they feel comfortable with.

Mr. **English**. You also mentioned new job training, or retraining programs, with regard to work forces. In order for job training to be successful you have to have jobs there, don't you?

Mr. **Watson**. That is true, but we also think that by enhancing the human capital in various areas, we will have another arrow in our quiver with which to use to shoot down new employers. If we have a program in rural areas that is directed toward retraining in those rural areas, we believe that that will be more of an enhancement for potential employers to look at those rural areas as a place for establishing their business because they know that they have a comprehensive system of training for the people that they need to employ.

Mr. **English**. Mr. Holloway.

Mr. **Holloway**. Maybe just to comment, but you brought up the bill, which I think is what we have to have to answer the health care in the rural area, and that being Mr. Pickle's bill to equalize the payments. I don't think there is any way in our country that we can survive in our rural health care without an equalization. Where they came up with the fact it is cheaper to operate in a rural area, I will never know because of the number concept. Very often, our hospitals are the largest employer in those parishes or counties, so I think it is the key and I think we have to, as a committee, or as a rural caucus or whatever it is, we have to endorse that bill and make sure that we do see that it has every opportunity to get through Congress that we can because there is just no greater need in the rural area that we have today than to see an equalization of payments between urban and rural areas.

So I appreciate your comments there. Your testimony was valuable. Thank you very much.

Mr. **English**. Mr. Penny.

Mr. **Penny**. I have no questions, Mr. Chairman, but I appreciate the testimony, Mr. Watson.

Mr. **Watson**. Thank you very much.

Mr. **English**. Mr. Espy.

Mr. **Espy**. Thank you, Mr. Chairman.

I really do appreciate your testimony. It was illuminating and brought, at least to this member, the fact that there are some offices in existence that I have never heard of before. For example, this Office of Small Scale Agriculture——

Mr. **Watson**. Yes, sir.

Mr. **Espy** [continuing]. Is the Cooperative State Research Service under USDA presently existing——

Mr. **Watson**. Yes, sir.

Mr. **Espy** [continuing]. Presently funded?

Mr. **Watson**. I believe it was officially formulated by Secretary Lyng in 1986.

Mr. **Espy**. You indicated in your testimony it is buried in the bureaucracy at USDA. It must be buried pretty far under because I tell you, I have never heard of them and will start inquiring as to what they have been doing.

Your testimony is comprehensive and, at least in the written version that I am attempting to read for the first time, you touched upon a lot but then there are certain things you skipped over.

In your business and economic development review, you talk about rural America being a place where a vast number of Americans choose to spend their leisure time.

Mr. **Watson**. That is correct.

Mr. **Espy**. And where they choose to retire, but yet I don't think I read in there any specifics as to the ability to develop the tourism industry in rural America.

Mr. WATSON. One of the areas, in looking at some of the tourism, again comes under the idea of the comprehensive Federal land-use review.

The Federal Government owns approximately 727 million acres in this country and most of those acres are in rural areas. Now, admittedly, there is a lot of acreage that is set aside for specific limited use, such as wilderness areas, but the President's Commission on America's Outdoors—one of their findings was that there are tremendous opportunities in rural areas, particularly where there are Federal lands out there that are not being utilized for hiking, for recreation and for things like that and opportunities for the Federal Government to work in partnership with local entrepreneurs and commercial enterprises in order to enhance these recreational opportunities.

So we think one of the first things we should look at is what opportunities does the Federal Government have in order to enhance some of these recreational and business opportunities with the vast land mass that they already control?

Mr. ESPY. I appreciate that and look forward to reading more about it.

Also, in your testimony, you talked about the business-related activities that the grange itself had sponsored. Some have been successful and some have been not too successful.

Can you embellish upon that a little bit? Can you repeat for at least this member the Montgomery Ward experiment and the Agway and some things that turned out to be failures, and if you can tell the committee why you think that they didn't work.

Mr. WATSON. When the grange traditionally started economic services for its members—it has been primarily directed toward meeting an unmet economic need that was seen in rural America, rather than, say, producing a product for sale in urban areas or overseas. So that has been the basis of most Grange economic activity.

If I can just take a second and refer to my written——

Mr. ESPY. Page 17.

Mr. WATSON. Thank you.

Through the years, there has been a lot of economic activity with the grange. Former and current grange-affiliated companies have become household words. For example, as I state in my testimony, Montgomery Ward began as a mail-order retail shopping service exclusively for grange members. When Montgomery Ward, the individual started out, you couldn't purchase anything from his catalog unless you were a grange member.

Other supply cooperatives, such as Agway and Southern States, were also started by the grange, in addition to a number of medium-sized insurance companies, National Grange Mutual Insurance, Farmers and Traders, and the farm supply co-op, Cenex, as we know it today, in fact, merged with a grange-supply cooperative in Oregon and Washington States.

I think the biggest consideration of whether a Grange enterprise has succeeded or failed has been whether or not that enterprise has practiced good business opportunities and good business management. Our people have discovered that just having a good idea is not, in and of itself, enough to prosper.

Again, over 100 or 125 years, with some successes and some failures, I think that a lot of our people have realized that you have to have good business management when you are going into an economic venture and you can't just have a good idea or anything like that.

So I am not sure whether I have answered your question, but essentially we have discovered that the rules of business are not repealed for rural America.

Mr. **Espy**. Do you have any idea of the nature of the failing businesses?

Mr. **Watson**. Many of the failing businesses have been similar to some of the businesses that have succeeded. Credit unions, supply cooperatives, some discount retail purchase operations. There doesn't seem to be any particular type of business that we have tried to start that has failed.

It seems to be more across-the-board and more related on business practices.

Mr. **Espy**. Thank you. I appreciate those answers.

Mr. Chairman, I appreciate it.

Mr. **English**. Mr. Harris.

Mr. **Harris**. Thank you, Mr. Chairman. I just want to commend the gentleman on this testimony and there is one area in particular that I am interested in.

You touched on the star school concept, which the University of Alabama was one of the first recipients of a grant to implement that program, and we have it in our district. It certainly helps improve our rural areas and especially the educational system there. So we will certainly want to be supportive of that and other things that you have mentioned.

I appreciate your testimony.

Mr. **Watson**. We are still convinced that human capital development is going to be as important to rural development as anything else we can do.

Mr. **Harris**. Right. And it is your suggestion to expand that technology beyond just education as far as school is concerned, but also with—for businesses and health care and other agencies?

Mr. **Watson**. Yes, sir.

Mr. **Harris**. Thank you, Mr. Chairman.

Mr. **English**. Thank you very much, Mr. Harris. Appreciate it.

Mr. Watson, we appreciate your testimony. You did a fine job.

Our next witness is the honorable Wally Sparby, who is State representative from Minnesota, testifying on behalf of the National Conference of State Legislatures.

Mr. Sparby, we want to welcome you. It is nice to have you here and we will be happy to receive your testimony. I suppose I should yield to Mr. Penny for any comments that he would like to make.

Mr. **Penny**. I would simply like to welcome Wally to the hearing today. I know of his longstanding interest in this issue. Minnesota, along with all of our rural States, went through a period of economic decline in the early and mid-1980's, and I think our State legislature was an example of responsiveness to those concerns. The Greater Minnesota Corp., which was established a couple of years ago, is just one example of the many fine efforts undertaken at the State level to respond to the rural crisis and to help our farmers and rural communities alike.

Wally is also active in the national council of State legislatures, is a leader in the rural development issues at that level and it is in his position with the national council that he has been asked to testify here today, so we welcome him and look forward to his sharing of his expertise with us.

Mr. ENGLISH. Mr. Sparby, let me also say, as I have told our other witnesses, if you care to summarize your testimony, your complete written testimony will be made a part of the record.

STATEMENT OF WALLY SPARBY, MINNESOTA STATE REPRESENTATIVE ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. SPARBY. Thank you, Mr. Chairman, and members.

It has been interesting to sit here this morning and listen to the testimony. I am not going to go into detail as to the written script you have that we have presented for you.

I am here this morning to represent the National Conference of State Legislatures, which has membership in the 50 States, the Commonwealths and the Territories of the United States. I have been a member of that agriculture, food policy and rural development committee for the past 7 years and it has certainly given me some good insight as to what is happening throughout the country.

I am going to digress from the script that you have here before you this morning and kind of talk about some of the issues as I see them, because you have heard many of the things that are stated in the statement already this morning more than once, so I am going to talk to you as I see the problem out there in rural America and how it affects all of the States throughout the Nation.

Basically, I think we are back on the path of rebuilding rural America. We started out in the beginning of the century building railroads and infrastructure that needed to be put together so that we could have a vital rural economy. Throughout the 1980's, we have seen a lot of digression as to what has been going on in rural America, the falling farm prices, and the falling price of the land value that has created a lot of problems for us throughout rural America.

There is some way we have to put that package back together again, and the best way I see of doing that is, of course, with some good farm prices, commodity prices, but also we need to build that infrastructure; we need to rebuild it; we have to build on our educational concepts and we need to do some other things in the areas of health care.

I know in the district that I represent, I expect that about one-third of the people don't have health care insurance. They don't have the ability to go to a hospital and get the care that a lot of us folks do.

Another thing that they don't have the opportunity to do in many cases is to get the kind of education that a lot of other folks have, because those opportunities aren't there. But more importantly than all of this is that we need to put together economic development in rural areas.

That takes capital, venture capital, and risk capital. You are not able to go to the bank in Local City, USA, and say, "Mr. Banker, I need $500,000 or $300,000 to put together this package here so we can provide jobs in this given community." They are willing to share in that, but they are not willing to put all of the money on the block to make that happen and I think that is where your committee and the Congress can come into play and be a key player in that development in providing funding.

Another area that we need to take a serious look at is telecommunications. We have done some of that in some areas of the United States through the fiberoptic element and by providing opportunities for educators to share their expertise with members of other school districts. I think we need to provide the dollars so that that can happen to more schools and more education facilities throughout the United States.

For the past 6 years, I have had the opportunity to work with the job training programs in the State of Minnesota and had an opportunity to visit with a lot of folks throughout the United States. I think that is vitally important, that we have good job training programs available for those who might want to relocate their businesses in a rural area or to start up a business there so they have the opportunity to train those employees in the vocation that they need, to make sure that functions going on in that rural community can have qualified people to do the jobs.

Another area that I see as important to all of us throughout the country is housing for the elderly. We have many of our smaller communities that a lot of our folks would like to stay in and live in as they retire, but they don't have the opportunity because there is not adequate housing available to them for that purpose. So I would hope that you and your committee would address that issue as well.

We would like to have you know that the States stand ready and willing to cooperate and work with you. We have a lot of good economic development tools working within a lot of States. Oklahoma has done some of this, Kansas, Mississippi, Missouri, Minnesota, Montana, and there are many more that have programs that are working well at this point in time.

I think there needs to be a coordinated effort between the Federal Government and the State governments to make sure that we are not doing an overlap in some of the things that we want to do that we would both like to see happen. I think that we at the State level have the administration and the tools available there and the people who can do these jobs for you if we can just share in the dollars and the ideas to make sure that it does happen.

One of the other things that has been vitally important to all of us and it is important that we continue to fund them properly, is the development of roads and airports. We have found out in many instances where the airlines have discontinued services to some communities and that has had a very detrimental effect to the continued functioning at the level that they would like. Development and the continued development of airports throughout rural America, I think, are vitally important to the infrastructure as a key link and an opportunity for us to do our business on a daily level. The railroads seem to be a disappearing act so we are having difficulty getting our commodity to market via the railroads, because a lot of rail lines have been discontinued in some of the areas.

So those are some of the things that I see as vitally important to the States and the rural America and I would just like to emphasize what we have done in the State of Minnesota as an example of economic development. We have the Department of Trade and Economic Development which we fund on an annual basis. Some of the programs that have come out of there are funded with matching grants in most instances; we give that money to the local city government or community government as a grant.

Let me use an example $250,000; they would match that with $250,000, and the grant that we give them goes into a revolving loan account. They decide, then, whether that interest rate is going to be at 5 percent or 8 percent or 10 percent; whatever they figure that business can stand. That money comes back in in a repayment schedule to them and they can utilize that funding to assist other entities that may want to expand or start up business in that community.

It has been one of the most successful programs that I have seen anywhere in the country and one that we want to expand on in Minnesota. I just wish we had more money to spend on that. If I had my way, we would certainly be happy to spend $50 million or $100 million a year. I don't think it would be any problem at all.

In my district, I have several of these businesses that have expanded or started up through this program and so far, in my 7 years in the legislature, I have not had one failure. They have all done well and they are doing well and they are growing.

So I think that is a compliment to those folks who are involved, but I think it is also a compliment to the people that have put that program together at the State level. They have done an excellent job and they do a good job of oversight.

I want to thank you for the opportunity to be here today and I would be happy to answer any questions you might have.

[The prepared statement of Mr. Sparby appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Mr. Sparby. I appreciate that.

I think there is no question that there is more than enough work for everybody to do on this job, whether it be local government, State government or the Federal Government. I don't think we are going to find a shortage of things to do. It is going to take all of our efforts to be successful in that.

One of the things I noticed is the match question. I raised this earlier about the problems that we have. In some States, they don't have the money to match. How do you suggest that we address that kind of a problem, the inequity as far as the source of funds in various States?

Mr. **Sparby**. Mr. Chairman, I am glad you asked that question because, in some cases, I think that the match can be done through in-kind services. I don't think it necessarily has to be dollars. Let's say you were going to be providing $1 million or $100 million, as Terry Montgomery had mentioned earlier, to a given State. Let's say Oklahoma. Specifically, I see no reason why half of those dollars could not be done in in-kind services.

We have done that through utilization of equipment and labor rather than using dollars. It seems to work out well.

Mr. English. Doesn't that have to be taken away from some other kind of State effort or local effort, local government? If you have use of equipment, road-building equipment or something that the State owns, then that means that that is not going to be out there building roads or performing whatever function that it normally had, wouldn't it?

Mr. Sparby. Mr. Chairman, that is true, but I think if you look at the overall picture, it is certainly going to provide more tax base and I think that is the intent, to provide more tax base there so you are going to be bringing more dollars in in the future to offset that cost that you might have immediately.

Mr. English. Like the State of Oklahoma, using that as an example—the State of Oklahoma has a balanced-budget amendment requirement. Their budget has to be balanced. We find ourselves in a very difficult situation due to the fact that our economy over the past 8 years, both from agriculture and energy, has been drained to the point that they are having a very difficult time in simply maintaining the services they have. In fact, they have had to cut services. That is true, not just in the State government; of course, it is also true for local government. Service cuts have had an impact on education and an impact on all the other services the State provides.

That is what troubles me a little bit. It seems like anytime we get into a matching concept, the match favors the guys who have the money. If you have money, you can take advantage of the match. If you don't have money, you can't take advantage of it. So there is more money available for those that can match.

So the wealthy get wealthier, the poor get poorer and I am not so sure that that is a good concept to lock into as far as rural development is concerned. I wholeheartedly agree that we need to separate out those folks who are willing to put forth an effort that are going to show promise, that are going to give us some leadership that will give us a chance of success. I think that makes a lot of sense.

There are those that won't. Whether they have the resources to match or not match, they are just not going to put out the effort to do it.

I think that I would suggest that perhaps we ought to be looking more toward that kind of distinction, of trying to reach that kind of conclusion as opposed to simply whether they can match or not match.

Mr. Sparby. Mr. Chairman, some of the match, of course, comes from private enterprise. We have to balance our budget and I believe most States have to do that. A lot of the grants and the loans that we are putting out are basically to private enterprise and they have to come up with the match.

Mr. English. Of course, you get out in our part of the country, I guess this gets different in various regions of the country. Down in our part of the country, the way it is right now, the State and local governments are providing all kinds of benefits to any kind of private industry that would come down there. I mean, it is not a question of private industry putting up something; it is a question of how much the private industry is going to get. How much are they going to receive? We have communities bidding each other. We have States bidding against each other and I guess that—maybe we have a different situation in Minnesota than we do down in our part of the country and undoubtedly that is true in different regions of the country—but I have a hard time thinking that the communities are probably going to commit whether they have the resources or not.

They are going to feel they have to commit not only their share, they are going to have the pay the industry's share. The more desperate the areas of the country are, the less they have, the poorer they are, the more there is that tendency to try—it is a frantic effort to try—to save themselves because they see the deterioration.

When they are losing skilled workers or losing their young people, I have a real tough time with the matching concept in trying to make that reach. There ought to be a better way of doing that than going strictly on whether you can match or whether you can't match.

Mr. **Sparby**. Mr. Chairman, one of the other things that we have done is the enterprise zone concept. We developed that and we have several enterprise zones throughout the State of Minnesota where they are given an incentive through the taxes; as an example, per employee, they were given $750 as a deletion in their taxes if they retain that employee as permanent. That is a concept that has worked extremely well.

One of the other States has a program as well, similar to that with a $1,250-per-employee tax incentive. As an example, in Thief River Falls, we have the Arctic Cat Enterprises, which builds snowmobiles. They are one of the participants in that enterprise zone concept and they have told me time and time again that it is one of the best enhancements that they have had.

Mr. **English**. Thank you very much, Mr. Sparby.

Mr. Penny.

Mr. **Penny**. I want to follow up on this business of the financing question as well. It seems to me that if the Federal Government is going to get involved, we have to be more targeted in our effort. I mean, we already have the SBA and other entities that can loan for a multitude of purposes, but if we really want to have the greatest impact on rural development, those loans ought to be tied to products that are indigenous to the rural areas, the farm crops that can be put to ultimate uses.

How do you feel about more tightly defining any loan guarantee assistance or other technical assistance that we provide in simply those areas that allow us to put our farm commodities to an alternate use?

Mr. **Sparby**. Congressman Penny, I don't think that there is any problem with tying that a little tighter and tying it down, providing that it is not choking off the source there. We have tried to develop a concept that improves the job market, increases the job market, increases the dollars that are turned over in that given entity, and I think maybe you can design your program to do a similar thing.

In talking about alternates for crops, as an example, in Oslo, MN, right now, we are putting together a marketing and processing plant that is going to process and market vegetables, which we have never done up in that area of the State before. I think it is going to be successful. They are going to be canning and processing and marketing potatoes, as an example, pinto beans and other types of vegetables and shipping them, I hope, worldwide.

I don't think there is anything wrong with that concept being developed throughout the country. You can do that if you specify that in your rules and regulations. You have a good program going in FmHA right now where you have the guaranteed loans available to some of the areas of the country and we were talking about that yesterday with the Department; that if they are willing to guarantee 75 percent of a loan, as an example, and the local folks come up with the other 25 percent—I am just using that as an example—now I think that is something that could be enhanced as well.

Mr. PENNY. To what degree are you looking at alternate crops, nontraditional crops, as an avenue for rural development income for our farm population?

Mr. SPARBY. I think it has a good possibility, but I think it is limited. To be honest with you, there is a limited market for that. You are never going to be able to compete with the wheat, the corn, the beans, and those kinds of crops, but there are individuals who want to do this and I think that opportunity ought to be provided. There are a lot of folks in the metropolitan area who want to buy those crops, alternate crops that are grown organically or whatever it might be, so there is a market there, but I don't think it is going to be the answer to the problem.

Mr. PENNY. Some general observations on farm policy, what we ought to do to ensure an adequate income for farmers, which I think is the underlying issue if we want strong rural communities, you have to have some money in the farmer's pocket.

What do you want us to do on the farm bill?

Mr. SPARBY. The first thing I want you to do is provide some money that I understand you have in the funds somewhere to take care of the grasshopper problem. The grasshoppers are eating up the crops in western Minnesota right now and time is of essence. We need to do something about that.

As far as the agricultural policy is concerned, I think we need to deal with that on a fairness issue. I really get concerned when we have to deal with a duty in some of the foreign countries and they don't want to treat us the same. You can call it whatever you want, tariff or duty or whatever, but I think it is strictly a fairness issue to the American farmer. That needs to be addressed.

The programs that are out there for wheat, corn, basic grains, I think you have a good basic program, but I think you need to really take and keep a close eye and watch on the diversion and how many acres are in the set-aside and how that is handled but the supply and demand seems to be working quite well with the program that we have intact right now. I don't hear a lot from the farmers saying that they are upset about that. I think they are quite well-satisfied with it, if we can control that supply and demand to the extent that you have in the last few years.

Mr. PENNY. Mr. Chairman, my time has expired.

Thank you, Wally, appreciate your testimony.

Mr. ENGLISH. Mr. Espy.

Mr. Espy. Thank you, Mr. Chairman.

Representative Sparby, I appreciate your being here and I appreciate your thoughtful testimony.

On page 5 of your written testimony, you go in some specificity into how State governments, like the State of Illinois, presently share the State wealth with some of the more distressed areas within that particular State, and then you also mention Arizona, North Carolina, and Pennsylvania, what they are doing in what I call geographic set-asides. Target procurement, expenditure of State funds into depressed areas, and it is written into law.

So I am asking you, Are you recommending this as Federal policy should this committee undertake to tell the Department of Defense that it should, for instance, spend 2 or 3 percent of its $300 billion in rural America and write that into law and designate it into policy?

Mr. Sparby. Congressman Espy, I think that there is nothing that would be more popular in rural America than a policy as such. What they have done here in Illinois and some of the other States is being specific about that kind of designation. I think those kinds of policies, if they were developed at your level, to provide those opportunities out there in some of those communities would revitalize them quicker than anything else. Jobs would be available and it would be jobs that would provide enough funding, or dollars per hour, so that these people could make a good living and be able to buy health insurance and educate their children; some of the things they can't do today.

But I am sure it is a difficult issue for your folks to deal with, but I would hope that someday that could be implemented and that it could become a reality because I think the States would be very pleased if that policy were to be developed.

Mr. Espy. I agree with you and want to associate myself with the remarks as indicated in your answer. I think in my own particular situation, that is the best thing that we could do. If we could do that, it would be difficult and we might be exposed to some equal protection arguments and the rest that might come from some of the other States and some of the other regions, but I do think that if we were to approach the problem of transportation and DOD and GSA and FAA and all of them and tell them that for the next 10 years, that you are to slice off a share of your resource base, your procurement dollar, and you must spend in some form with small businesses or minority businesses in this particular region, I think that is the best thing that we could do because it would take on a life of its own and that dollar would triple and quadruple and stay in the region.

If we could do something like that, I think it is about the best thing that we could consider.

Thank you, Mr. Chairman.

Mr. Sparby. Mr. Chairman, I would just like to add that in Minnesota, we do require that there be *x* percent of unemployment and that there be *x* percent of poverty level and so on and so forth before these kinds of programs are provided in those communities.

Mr. English. Thank you very much, Mr. Sparby, it is a fine statement and we appreciate your testimony.

Mr. Sparby. Thank you.

Mr. ENGLISH. Mr. Espy, I am going to recognize you to introduce our next witness.

Mr. ESPY. Mr. Chairman, I appreciate that. I would like to present to this committee Mr. Wilbur Hawkins, along with Mr. Kevin Smith, who will sit with him.

Mr. Hawkins is the executive director of the Lower Mississippi Development Commission. He is a new director, Mr. Chairman, and this is a new commission. It was created as a result of a bill sponsored in the other body by Senator Dale Bumpers from Arkansas and on this side by myself and Congressman Jamie Whitten. We introduced it in the waning months of the 100th Congress and it was authorized on the Senate side and included in conference on the agriculture appropriations bill.

Mr. Hawkins, although very new to the commission, is a veteran in the economic development wars. He comes to us on loan from the Tennessee Valley Authority under their loan executive program where he headed their Community Resource Development Division there and I think the work of this commission will have a great impact on our deliberations inside this committee, Mr. Chairman, because it consists of nine members assigned to do an 18-month study of what it is going to take to improve the quality of life in a seven-State region that just so happens to be the poorest region in the Nation, 186 counties, and there are three Governors on this commission. The chairman of the commission is Governor Bill Clinton from Arkansas; the vice chairman is Governor Mabus from Mississippi; and our own predecessor chairman of this subcommittee, Mr. Ed Jones is the secretary of this particular commission and so they have a prestigious membership and they are going to do good work.

It is my own personal opinion that this commission can be a persuasive voice for our work and can help us in our work and we can use their recommendations in our deliberations. So with that, let me thank him for coming, along with Mr. Smith, who used to work for Mr. Bumpers on the Senate side.

Thank you and thank you, Mr. Chairman, for allowing me the opportunity.

Mr. ENGLISH. Thank you, Mr. Espy.

Mr. Hawkins, we want to welcome you here today and, as I told our other witnesses, please feel free to summarize your statement and your complete written testimony will be made part of the record.

Mr. Smith, we want to welcome you, too.

STATEMENT OF WILBUR F. HAWKINS, EXECUTIVE DIRECTOR, LOWER MISSISSIPPI DELTA DEVELOPMENT COMMISSION, ACCOMPANIED BY K. ANDREW SMITH, DIRECTOR, GOVERNMENT AFFAIRS

Mr. HAWKINS. Thank you, Mr. Chairman.

I would like to, first of all, thank you, Mr. Chairman, Chairman English, and my very close personal friend, Congressman Espy, the Congressman from Mississippi, for this opportunity to appear before your subcommittee this morning.

As Congressman Espy previously stated, I am the newly appointed executive director of the Lower Mississippi Delta Development Commission. We are a federally funded commission designated to address the severe rural problems of the poorest region in the country and I welcome this opportunity to testify this morning as your panel examines the problems and searches for solutions to the plight of rural areas nationwide.

I bring to you greetings from your former Congressman and chairperson of your subcommittee, Congressman Ed Jones. He also sits on our commission and serves as secretary in that capacity.

Today, I will provide an overview of the role of the Lower Mississippi Delta Development Commission, a profile of the problems of the delta region, followed by a review of some policy recommendations the delta commission is now considering.

The Lower Mississippi Delta Commission was established last year by Public Law 100–460, the Delta Development Act, which was introduced in the House by Congressman Espy and in the Senate, by Senators Bumpers and Thad Cochran. It was broadly supported by both parties and signed into law by President Reagan.

The Delta Act designated the lower Mississippi Delta as the poorest region, most underdeveloped, and economically depressed area of the country. It established a Federal commission made up of one member from each of the seven States in the region and two Presidential appointees to study problems and solutions.

We are to make our interim report to Congress in August of this year and we will make our final report to the Congress in May 1990. Our specific legislation is designed to create a 10-year strategic economic development plan. Our goal is to implement a coordinated Economic Recovery Program for the delta by the year 2000.

Located along one of the greatest rivers in the world, and including the Nation's richest farm land, the delta consists of seven States from the southern tip of Illinois down through southeastern Missouri, western Kentucky, Tennessee, and on down the Mississippi River through Mississippi, Arkansas, and Louisiana, with 204 of our 214 counties in rural areas.

This region has long surpassed every region in the country in terms of measurable poverty; numbers of poor counties, low percapital income, and unemployment.

According to the Census Bureau and the Congressional Research Service, all but three of the regions' rural counties are well below the national average in each of these categories. For example, Tunica County, MS, considered the epicenter of this crisis area, is in Congressman Espy's district. It is the poorest county in the country with 52.8 percent of its population living in poverty.

Across the river in St. Francis, AR, there is an unemployment rate as high as 30 percent, more than five times the current national average, and Lee County, AR, has a per-capita income of only $6,643 annually, 48-percent below the national average.

I can provide similar statistics for every county and parish up and down the region on both sides of the river. Such statistics have consistently ranked Mississippi as the poorest State in the Union, where one family in five lives in poverty, twice the national average. Louisiana ranks second in poverty and Arkansas fourth.

The States which comprise the region also rank last in almost every education and health indicator. Since 1900, Louisiana and Mississippi have consistently ranked last and next to last in literacy and Arkansas has ranked in the bottom 10.

Nearly all of the States in this region are the worst in the Nation in public school drop-out rates, with rates in excess of 30 percent, and they spend less than $2,700 annually per pupil in public education, $1,200 less than the national average.

In health, our States rank first in the Nation in teen pregnancy rates, ranked highest of all in infant mortality, far in excess of the 10.6 deaths per 1,000 live births nationwide.

I can go on, but I will let you read these and many more findings to be published in our first report to be presented in August. However, as you can see from the sampling I have just provided, it is a grave situation in the rural delta that has necessitated the creation of the Lower Mississippi Delta Development Commission.

By the way, this commission is the first commission headquartered out of Washington and in the target area.

At this point, Mr. Chairman, having only recently established a fully staffed office in April, we are in the process of doing the same thing you are doing, collecting information and proposals from every resource on the problem and, most importantly, the solutions.

As mandated by law, we are now holding public hearings in each of the seven States and listening to testimony from a cross-section of the rural community, including representatives of business and finance, State, and local governments, agriculture, inland waterways, commerce, academic institutions, rural schools, hospitals, and the public at large. We are also working with institutions nationwide in an effort to pool the latest research and creative methods for dealing with these problems.

So while we will not present the Congress with our findings until August of this year, and with our final report, there are some suggestions that I would like to focus on for examination by your committee.

You have already heard of our findings, but let me add a few more. We have learned that the homelessness is not just an issue in urban America. Based upon a report by the Salvation Army in Washington and in Memphis, TN, you can now say that the homeless problem is one of rural America as well. Mostly seasonal farm workers in the delta comprise our homeless situation. On more traditional rural problems, we have found that what is true for other rural areas is even more true for the delta.

Rural hospitals are closing at more alarming rates in the delta. Welfare is a bigger problem in the delta, where in Phillips County, AR, for example, $20 million, roughly $2 million a month, in transfer payments are expended every year. Since the rich delta is one of the most agricultural-intensive areas of the country, it has suffered disproportionately from the recent farm crisis.

In health care, although the delta counties have among the highest per-capita birth rates, it has the least number of pediatricians or doctors willing to deliver babies in the face of reductions in Medicare and the cost of malpractice insurance.

Additionally, in education, we have the poorest and lowest per-capita expenditure for pupil for rural schools.

The delta has the most dangerous bridges and among the worst rural highway systems among other critical infrastructure problems.

Finally, we have the lowest amount of capital in our banks to finance business growth and the lowest amount of taxable income, resulting in the lowest tax revenues available to our State and local governments to turn around this bleak depression.

The USDA Senate report, titled "Rural Economic Development in the 1980's," has attracted so much attention on the Hill portraying how bad it is in rural areas. In many instances, these statistics, cited in that report, have to be doubled or tripled to match the delta.

We in the delta have known how bad it has been for some time. Those are the problems, but what do we do about them and how do we pay for any new programs which may result?

Let me review a few of the proposals which we are examining on the commission. First, we are looking into the promise of value-added processing in alternative agriculture. Certainly these are not new ideas to you, but it is an answer from which we believe the delta will benefit where these are still new concepts in terms of actual implementation.

Because of its rich soil, many crops which are grown elsewhere could be grown cheaper and in greater quantity within the delta. Second, we are examining what realistic impact a national alternative fuels program using ethanol-blended gasoline could have on the delta. If such proposals like this one, recently proposed by President Bush, are broadly implemented, it could create substantial new wealth among the agricultural sector that remains with cash crops.

Third, since the Federal Government is the Nation's largest purchaser of goods and services, we think a solid case can be made that Washington should spend more money in terms of Government procurement within the delta. It is interesting to note that today, more Government procurement contracts go to Puerto Rico than to the delta. There is nothing wrong with supporting Puerto Rico, but it is the delta, in the heart of the Nation, that has the poorest per-capita population in the United States.

We can provide T-shirts, for example, to the U.S. Army. There are several manufacturers in the delta that would love to have this business now before these textile industries go out of business within our region.

We feel that increased Government procurement dollars could go a long way toward helping to develop that region.

With respect to welfare, we are looking at where the recently enacted Welfare Reform Act could be more realistically improved upon. If welfare recipients are allowed to gradually replace that income with independent income, for example, instead of being immediately cut off from welfare, this could go a long way toward serving as an incentive to alleviating our welfare problem.

In infrastructure, health care, and education, and a host of other areas, we are developing such proposals for consideration by our commission. In terms of funding sources, we are looking at both public and private sector sources. We are examining how the Federal Government can better prioritize its funding to see if it can be shown by a cost-benefit analysis how the the Government could better allocate current spending by concentrating on the rural delta and redirecting funding without creating much new spending. We believe that it is a very real possibility.

In the private sector, the delta commission has assisted local and State business leaders and organizations in setting up a private regional foundation to attract funding through corporate and other contributions for economic development. We are working with church leaders in the region to pull together and give financial support, as well as volunteer support for local regional projects, such as repairing dilapidated housing and working with homeless families. We are working with academic institutions in the region to come together and form a regional university consortium to pool research and academic talent that will be focused on the needs of the delta.

Finally, Mr. Chairman, and members of the subcommittee, I would just like to share something one of your colleagues said about the delta 130 years ago. On the floor of the Senate, Daniel Webster, of Massachusetts, opined, and I quote, "Ere long, the strength of America will be in the valley of the Mississippi."

Although this prophesy is true in many ways, it certainly is not true economically. When we return with our interim report in August and our final report next year, we expect to present you with a solid set of guidelines to help make Daniel Webster's prophesy ring true.

One thing that you need to know for the record is that unless we do something about the plight of the Mississippi Delta, the seven States, 214 counties within our region, we definitely will have an abyss where poverty will drain continually upon the rest of America.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hawkins appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Hawkins. That was a fine statement.

If you had to prioritize in a rural development bill, given the limited resources that we have and the realities that we are facing, what priorities would you list?

Mr. HAWKINS. The first priority, I would have to say, Mr. Chairman, would be the expansion of small farm enterprises and capital formation. I say that together because I think that when you look at our bleak situation, we do not have the capital to expand or diversify our agribusiness economy.

We are exploring the possibility of creating a regional development bank to attract diversified portfolio investments from the larger entities nationwide. So capital formation is absolutely the No. 1 issue as far as I am concerned.

Mr. ENGLISH. We have been hearing some testimony with regard to matching funds. Would your region be, in your opinion, able to take advantage of such a program?

Mr. HAWKINS. No, sir, they wouldn't. And to be quite honest with you, I think that when you look at an area as depressed at the

Lower Mississippi Delta, when you talk about matching and you talk about in-kind services or even draining the State resources, the priority that we have placed with respect to State funding has been on raising the level of educational attainment. Given the fact that that is a No. 1 priority at the State level, particularly with respect to Louisiana, Mississippi, Arkansas, and Tennessee, then that would further drain resources, personnel, that are presently concentrated upon that industry.

I think what you may want to consider would be some form of targeted or priority distribution of current Federal funding, as well as a guaranteed loan approach, targeted to the worst cases, as we consider it, threshold development zones.

In a number of cases, we have rural communities that will fall off the tip of the world if something is not done about this situation. In other cases, we find that communities that have expanded can, in fact, have a spill-over effect to surrounding areas, so I think that should provide some discussion on that particular issue.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman. I see we have a vote occurring. Maybe I can get my questions in and then we can go vote and return.

I know that the committee was formally organized in January and you were hired and assembled your staff in April. Your report is due in August, which is not very long away.

I also know that you have been around the region. You have had at least one hearing that I know about, but that you have had several conversations with the impacted leaders in your area. So I suppose I want a peek of what this August report is going to look like, particularly in two areas.

One is in the nature of capital formation in the delta, and the other is with regard to this value-added processing that you talked about in your testimony. What have you heard in your travels in the region? What are the high-profile recommendations that you have received already. I will let you answer that first.

Mr. HAWKINS. Mr. Congressman, the first thing is regarding the issue of capital formation. We fully recognize that there need to be some type of incentives to attract new dollars to the delta. We still have a lot of our wealth, in terms of our larger farms, revenues, leaving the area.

Now, I think the issue of a regional development bank will be presented. We will highlight in our interim report the problems and profile the delta and give a status report on how our research is going with respect to the general areas.

We will not, in our August report, due to the brevity of the commission thus far, be able to make substantial recommendations. Now, with respect to your issue on value-added processing, we currently in the delta do value-adding to catfish, as well as to rice in the terms of ricecakes or even in the arena of further processing rice, but you find that with respect to cotton, to soybeans and other commodities that are produced, they are shipped out in raw form and then they return to the delta.

One of the things that we have to do is take advantage of our low-skilled workforce within the area. I think increased manufacturing opportunities, particularly with respect to canneries and freeze-dry operations in terms of food, as well as cooperative production and marketing of select produce crops such as asparagus or even other targeted products, will go a long way.

When I mentioned the fact that we have a substantial amount of Government procurement leaving the country, I think, as a preliminary to the expansion of Government procurement, we need to inventory through a cross match of existing regional manufacturers and suppliers prior to—as a preliminary to implementation of a geographic set-aside. That would help not only in terms of helping farmers or manufacturers target where value-added opportunities need to be developed, but also will excite and spur private-sector development.

Mr. ESPY. Thank you. When this interim report is presented in August—and I am sure it will be presented on time—and the final report is presented in 1990, what happens then, Mr. Hawkins? How do you propose Congress is going to follow up on the commission's recommendations and will there be an entity to monitor progress in the region?

Mr. HAWKINS. Presently, Mr. Congressman, when our final recommendation is rendered to Congress in May of next year, we are due to go out of existence 120 days afterwards. I think that if everything goes according to our plan, the final report of the delta commission will be a blueprint for Federal, State, and local entities to use in gauging how to plan their development for the next 10 years.

It is my hope that some entity—maybe Congress or some other body—will have the responsibility for publishing an annual report card on how State, local, and Federal programs are meeting the goals as identified by the commission.

We are about doing our job and are not giving consideration at this point to the continuance of the commission or who is actually to do the work. What we are trying to do is to establish a partnership initiative at the local level, identify ownership and responsibilities for implementation, doing what we can do at home before we come to Congress saying, this is what the next step is.

Mr. ESPY. We don't propose here to create a new Federal agency that will go on ad infinitum, but pretty much of a short-term recommending entity that will come and investigate problems in the region, provide solutions, and extinguish itself.

Mr. HAWKINS. I don't see—well, the commission is presently established as not a long-term entity, and I think that if you are going to have substantial growth within the delta over the next 10 years, there needs to be somebody that has a narrow focus for coordination and resource delivery.

I think what you find—the question has been raised on several occasions, Why hasn't the delta been focused upon before? I think that when you have a seven-State area, you have some bicameral support and you have problems that greatly parallel, whether you are on the Arkansas side of the river or the Mississippi side of the river, there needs to be someone, some entity that actually makes sure that there is some coordination, that duplication is minimized and that you have greater communication among the resources and prioritization.

I think what we have, as hereto before, there has not been a regional focus on the problems of the delta. So I leave that particular issue up to the distinguished body of Congress to answer in the future.

Mr. ESPY. Mr. Chairman, I see my time is up and I think we have 7 minutes left for voting. Thank you.

Mr. ENGLISH. Thank you, Mr. Espy.

Mr. Hawkins, we deeply appreciate your testimony and we will recess until after this vote.

Ms. Boeder, we will be right back to you.

Mr. HAWKINS. Thank you, Mr. Chairman. I appreciate the opportunity.

[Recess taken.]

Mr. ENGLISH. Our next witness is Ms. Sylvia Boeder, who is director of the section for small or rural hospitals, of the American Hospital Association, from Chicago, IL.

Ms. Boeder, we want to welcome you here today and, as we told our other witnesses, if you would care to summarize your testimony, your complete written testimony will be made a part of the record.

STATEMENT OF SYLVIA BOEDER, DIRECTOR, SECTION FOR SMALL OR RURAL HOSPITALS, AMERICAN HOSPITAL ASSOCIATION

Ms. BOEDER. Thank you, Mr. Chairman. I certainly will summarize my comments.

I really appreciate the opportunity to be here today and I commend this subcommittee. I understand that while rural health care issues are not normally part of your purview, I have been encouraged to hear the testimony of the other presenters and also the remarks of the other subcommittee members which indicates that there is a genuine concern and a true understanding of some of the issues that are facing rural hospitals today.

I would like to talk briefly about some of the areas of major concern to rural hospitals and indicate some of the types of legislation which AHA supports in order to aid our Nation's rural health system and, finally, to give you a little bit of information about one particular project that we are working on in the section that may be of interest to you.

There is no question that as I travel around the country and work with my constituents, our Nation's small rural hospitals, that there is an increasing awareness of the need to maximize the scarce resources which are available in rural areas. The best way to do this is the approach that you are taking, which is to look at a concerted effort to build consensus on rural economic development.

Not only is the rural hospital a provider of health care and community service, but in many rural communities, it is often the first- or second-largest employer, right behind the school system.

There are three areas of concern to rural hospitals that I would like to address. Two of them are not new. They are historical problems which have faced our Nation's rural hospitals: rural hospitals face a lower-than-average utilization and second, a continuing difficulty in recruiting and retaining health manpower. The third problem is more recent—inadequate payment to cover costs of care, particularly under the Medicare Program.

Lower-average utilization has been a historical problem for rural hospitals. Ever since the end of the baby boom, utilization has been declining; but the decline has been extremely precipitous since 1980. As a point of comparison, while overall hospital utilization in the United States declined by 10 percent since 1980, the decline in rural hospitals was more than 20 percent.

In terms of manpower availability, our colleagues at the American Academy of Family Physicians have given us some very disturbing information which contradicts everything we have been hearing about a physician surplus. Even though there may be a surplus of physicians in the United States, that surplus has not trickled down into rural areas. In fact, in terms of the family practice residency match—between those residency candidates and the slots in family practice residency programs--is of extreme concern.

In the past, these slots have been about 97 percent filled by the time the various rounds of selection—there are normally two per year—have been completed. In 1988, after the first round of that family practice residency match was completed, it was only 73 percent filled, with a final total of 91 percent.

In 1989, we have gone through the first cut on the residency match with only a 71 percent fill rate. This has grave implications for rural hospitals because a greater than average percentage of our physicians who practice in rural areas are generalists and family practitioners. In an increasingly competitive labor market, this is just going to create more and more problems in terms of rural physician recruitment and retention.

The added problem that we are seeing is in terms of nursing and allied health professional shortages. I recently was made aware of a case in which an urban hospital, which was in extremely dire straits for nurses, was actually offering to come out to a rural community 70 miles away with a bus and pick up nurses and bring them in to work a weekend shift in the urban hospital. The nurses were paid for their 2 days an amount which would be equivalent to a 40-hour week in the rural hospital.

This is the type of competitive labor market that rural hospitals are looking at today and I don't see anything that will change in the future.

A concern of a more recent nature has to do with inadequate payment to cover the cost of care. In 1987, three out of four rural hospitals had patient revenues which were less than the cost of care that they provided. As I am sure you are aware, our rural population is made up of a greater than average percentage of elderly, which has an extremely critical impact on the rural hospital.

Shortfalls in Medicare payment and an increase in the uncompensated care load which hospitals have faced in recent years have put them in an extremely fragile position. During 1987, rural hospitals provided $8.8 billion in uncompensated care.

To move on to AHA positions in terms of legislative efforts, our primary focus is in ensuring access of care to the populations of rural America. I know that the goal of this committee, as stated in the press release before this hearing, was to ensure that life in rural America is a realistic possibility; we feel that without access to health care, that becomes extremely problematic.

First of all, AHA supports legislative efforts which will promote adequate and equitable Medicare payment as well as financing for indigent care. Second, AHA promotes health professional education and availability in rural areas. Legislative efforts to this end are also highly encouraged.

Third, we support the continued availability of the benefits of tax-exempt status to not-for-profit hospitals. Fourth, we support legislation both at the Federal and State level which assists in reconfiguring the services which rural hospitals deliver to residents of rural America.

Two examples of this which have come to pass are the implementation of the swing-bed program, which allows hospitals to provide a level of subacute or transitional care to patients before they are released to the home or to go into some type of long-term care and the second is the implementation of the rural health care transition grant program, which allows grant funding to rural hospitals which are attempting to reconfigure their services.

After having close association with this program during its development, I have learned that there were over 700 applicants from across the country for the 80 to 90 grants which will be given during the first year of funding.

Finally, while I recognize that these recommendations aren't strictly within the purview of this subcommittee, I would like to share with you one of our projects which I think has a very direct connection with rural economic development.

We at the section for small or rural hospitals have received a $100,000 grant from the Kellogg Foundation to produce a series of tools and monographs to assist rural hospitals and rural health care providers. The main piece in this series is a strategic planning workbook for rural health care providers. I am extremely excited about this workbook. It is in its final stages of production and will be completed and distributed within the next 2 to 3 weeks. It will be distributed free of charge to 4,000 rural health care providers, not just hospitals, but other health care providers as well.

The approach that we have taken is to give rural health care providers a step-by-step process for assessing community resources and planning the most appropriate configuration of health care services which will meet their community's needs. We encourage community participation in this planning process.

The work presents a two-phased approach. One, a 10-step process which allows an institution to plan for its own service delivery; and two, through the establishment of a community health services advisory committee, which looks at the broader scope of areawide resources and how to best use those and maximize the benefits.

We developed this workbook because our members told us they needed something that is not slick or fancy; but something that they can use on their own without hiring expensive consultants. That is exactly what we have tried to provide for them. It is sort of a cookbook.

I feel that this has exciting implications on a broader level for a wider community planning effort and my hope is that once a rural community gets started in this process on an institutional level or in terms of planning for community health services, they will then be able to take this generic planning process and use it for planning future community economic development.

I think that this may prove to be a very valuable tool for them.

Thank you again for the opportunity to present. I really appreciate the broad scope of this subcommittee, its assessment of the problem, and I commend those of you who are members of the House rural health coalition for your excellent efforts on our behalf. I welcome any questions.

[The prepared statement of Ms. Boeder appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Ms. Boeder.

I think that there is no question that members of this subcommittee recognize that health care plays an extremely important role in the success of any rural development program, as well as it does education. So it is not just a job. People have to have adequate health care. They have to have education available for their young people in order for the community to grow.

What adjustments in the present acute delivery system would you recommend to help bring about a higher utilization rate for rural hospitals?

Ms. **Boeder**. I think that we are already seeing sort of an evolutionary response to that from our Nation's rural hospitals. You are seeing a real shift in care to an outpatient setting. More and more procedures which can and should be done on an outpatient basis are being done in that fashion. This is being done to a great extent in rural hospitals because these are the type of simpler procedures which they have historically performed.

We are also seeing a movement into transitional care, into long-term care and into services for the elderly because the elderly will continue to be a major component of our rural health care population.

Mr. **English**. Do you support the cost-based reimbursement rates for rural hospitals?

Ms. **Boeder**. We support it, given that the calculation of those costs are adequate and accurate and timely.

Mr. **English**. Which they are not today.

Ms. **Boeder**. Correct.

Mr. **English**. I think we would all agree with that.

Would you support them for all hospitals or just those in a given geographical area?

Ms. **Boeder**. Again, I think that is very problematic because, as we have heard from the other presenters today, the situation varies so much from one region of the country to another. Area wage indices play a large part in the calculation of hospital rates right now, and I think that we also need to see a real refinement in the way that these are calculated.

Mr. **English**. In your opinion, given the present trend in rural health care, are we likely to see what, in effect, is the development of a regional hospital care, as opposed to local hospital care in every rural community?

Ms. **Boeder**. I think this is totally appropriate and that it is part of the evolution of the rural health care system. We need to consider hospitals as only one part of that system. Emergency transport is another critical part. Being able to link up with a larger hospital that can support the types of services that you provide. There has to be a win-win type of a linkage.

One recent example that I was made aware of that I think is very positive is in Kansas, where a large regional medical center and the obstetricians which practice on its staff have worked out a contractual arrangement with local rural family practitioners whereby the woman who is pregnant receives the majority of her prenatal care with her local family practitioner and then, under a cooperative arrangement, because the FP probably doesn't do deliveries, she delivers with the obstetrician at the medical center and then comes back for her after care with her local physician. There is one billing for the entire process.

I think that is a very positive example.

Mr. ENGLISH. Very good.

I thank you for your statement. It was a great statement, you did a very fine job and we appreciate you making that a part of our hearing process. We want to share this with the relevant committees that have jurisdiction in education and health care and hopefully we can encourage them to move along in helping us pass some legislation that will address the very important component of rural development.

Ms. BOEDER. Thank you. I might just add that Mr. Watson—I am not sure if he is present—from the grange—I don't know if he saw this, but I received an article from the Pennsylvania Grange indicating that they are cosponsoring a campaign, "No more Band-Aids. Grassroots campaign launch calling for equal Federal reimbursement for rural hospitals, in which Pennsylvania Grange is encouraging its members to send postcards with Band-Aids to their Members of Congress, asking them to really promote the need for adequate funding."

Mr. ENGLISH. Very good.

Thank you very much. We appreciate your testimony.

We will recess subject to the call of the Chair.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of Terry Montgomery

President and Chief Executive Officer

Greater Minnesota Corporation

Chairman English, members of the Subcommittee, for the record I am Terry Montgomery, President and Chief Executive Officer of the Greater Minnesota Corporation -- a public-private partnership designed to promote long-term economic development and job creation through applied research, technology transfer, and new product development.

The Greater Minnesota Corporation has been described by the Chicago Tribune as "the nation's most far-reaching state plan for forging a research and development partnership between private companies, state government, universities, and research institutes." As a unique model of entrepreneurial initiative, I predict that it will bring national acclaim to Minnesota and become a lightning rod for substantial Federal funding as well. Capital now flows with the speed of light to wherever it's needed, and stays wherever it's well treated!

Thank you for the opportunity to address means of revitalizing rural America. The need is great, the opportunities many, and the time is right to build a positive future for the next generation in rural communities across America.

The global economy is highly competitive and increasingly disruptive to the traditional industries such as agriculture and manufacturing. Technology is rapidly changing and industries in rural areas must innovate or the communities they serve will slowly but surely disintegrate.

A renewed commitment must be made by the Congress on behalf of rural revitalization. An excellent start will be passage of the Agricultural Research Commercialization Corporation Act of 1989, authored by Congressman Tim Penny of Minnesota and Senator Kent Conrad of North Dakota. I might add here that Dr. Bruce Merrifield, our Vice President for Research and Development, began this initiative several years ago in his role as Technology Advisor to the President while he was at the U.S. Department of Commerce. He is working with us now to implement the concept in Minnesota which can be the national model for initial Federal funding.

The legislation would establish an independent, nonprofit corporation within USDA, entitled the "Agricultural Research Commercialization Corporation (ARCC)." ARCC would aim at commercializing nonfood, nonfeed products and processes using agricultural crops by bringing together such entities as manufacturers, financiers, universities, and public and private laboratories. The goals of the ARCC and its four to nine regional centers will be to strengthen the rural economy, create jobs, expand the market for farm commodities, and enhance U.S. competitiveness in international markets.

We find ARCC to be particularly innovative and exciting because it is patterned, in part, after the concept of the Agricultural Utilization Research Institute (AURI), a component of the Greater

Minnesota Corporation. The AURI is a bold new effort to strengthen the future of Minnesota's agricultural industries. It will foster long-term economic growth through market-driven applied research and product development to find new uses and processes and add value to agricultural commodities.

Through its centers in Crookston, Marshall, Morris, and Waseca, the Institute is working to build partnerships between post-secondary educational institutions, agricultural organizations, financial institutions, public and private research facilities, and rural communities to meet future needs and improve the worldwide competitiveness of Minnesota agriculture.

I would like to call to your attention one feature of AURI which distinguishes it from other programs around the nation. Because it is established as a nonprofit corporation, it is free of state bureaucracy and has greater latitude in which to operate. As a result, we are able to match funds from the federal government, foundations, and the private sector. For example, we are prepared to match, dollar for dollar, our current request before Congress of $5.1 million.

Over the past year, the AURI has developed a series of programs to fund the type of applied agricultural utilization research and development which can revitalize rural America. Our first initiative was the Agricultural Utilization Applied Research Grant Pilot Program funded jointly by the Greater Minnesota Corporation, USDA, and other public and private matching sources. The value of research funded under the program exceeds $1 million.

Nine projects to find new uses and processes and value improvements in corn, soybeans, sugar beets, and wheat are being funded under the pilot grant program. The effort to secure federal funding for the nine projects was led by Congressman Vin Weber, with strong support by Congressmen Tim Penny, Arlan Stangeland, and other members of the Minnesota Congressional Delegation.

Examples of projects funded and now underway include research to test the use of degradable plastic films incorporating cornstarch as a food wrap and the production of the road salt substitute calcium magnesium acetate (CMA) from agricultural residues.

The second major initiative of the AURI is the Agricultural Energy Savings Program. Under the program, $2 million in oil overcharge funds will be directed to research or demonstration projects aimed at reducing energy use in production agriculture. Eight projects, ranging from precision pest management in apple production to sustainable agricultural crop management techniques, have already been approved under the competitive grant program. A second round of funding has just been opened for additional project proposals.

The latest initiative of the AURI is the Agri-Product Research Grants program. A new and expanded version of the pilot grant program, the APR program will fund projects which involve industrial and other nonfood products and processes utilizing agricultural commodities and food, feed, and fiber products and uses which are innovative and improve the value of farm commodities. The AURI is making up to $1 million available for grants of up to $100,000 under the program. Particular emphasis will be made to fund projects which involve collaboration between businesses and post-secondary educational institutions and/or demonstrate the probability of rapid commercialization of utilization research. Grant awards are expected next fall.

As with all Greater Minnesota Corporation grant programs, peer reviewers will assist in evaluating proposals for their scientific merit, technical feasibility, and market potential. The AURI is assisted by a statewide advisory board consisting of representatives of agribusinesses, commodity groups, and farm organizations. An important key to the success of this program will be the exceptionally experienced management that we are recruiting to run the program. Dr. Virgil Smail, our new Executive Director for AURI, is such a person. Dr. Smail, who holds a Ph.D. from Montana State University, has a wide range of experience in science, industry, and agriculture, including an assignment with the U.S. Agency for International Development.

The Agricultural Utilization Research Institute is one part of the Greater Minnesota Corporation's five-point agenda. The programs are: Business Innovation Centers and Technology Fields Offices, Advanced Manufacturing Technology Centers, other Applied Research Institutes, Seed Capital Programs, and Technology Research Grants.

As a market-driven, public-private partnership, the Greater Minnesota Corporation is a model for the nation and can serve to lead and leverage federal initiatives, such as the ARCC, and build support at the community level. Cooperation and innovation to develop technology for today and tomorrow are the keys to the future of rural America. We are here to work with you to build a sound future for our nation.

Thank you, Mr. Chairman and members of the Subcommittee, for the opportunity to address these issues. I shall be pleased to respond to questions or receive your comments.

(The Greater Minnesota Corp. news information packet is held in the committee files.)

NACD

STATEMENT OF
THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS
PRESENTED TO
THE HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT
ON
FEDERAL RURAL DEVELOPMENT INITIATIVES
JUNE 27, 1989

NACD RECOMMENDATIONS

Expand the use of the RC&D concept to promote rural development.

Promote the use of existing renewable natural resources as a component of economic development in rural areas.

Combine all USDA rural development programs under the RC&D Program.

Mr. Chairman, members of the subcommittee, my name is Steven R. Meyer and I am the Director of Governmental Affairs for the National Association of Conservation Districts. I am pleased to present to you our Association's recommendations for improving rural development programs.

NACD represents the almost 3,000 soil and water conservation districts in this country and the more than 15,000 women and men who serve on the district governing boards. Conservation districts coordinate and carry out comprehensive natural resource management programs at the local level. As a result, they cooperate closely with those federal agencies that have natural resource management responsibilities. Because we share common objectives and jointly implement programs, our members feel it is very important for us to share our recommendations with your Subcommittee.

THE DISTRICT INTEREST IN RURAL DEVELOPMENT

The primary goal of conservation districts is to provide leadership to natural resource development and protection programs. A part of this leadership responsibility entails assisting with the development of a local economy which is healthy enough to support their goals. Districts have long realized that land owners must be able to afford conservation before they will put any practice in place. A management decision that is good for the long term but places an operation in financial jeopardy for the short term is not acceptable.

This concept carries through all decision making at the local level. With a healthy and vibrant local economy, county governments are better able to support conservation programs. However, if the government resources are limited, it becomes difficult for these governments to provide expenditures for conservation programs.

A healthy rural economy is important to all of us. It provides jobs to citizens of those areas. It allows local governments to generate revenues sufficient to provide desired services. It provides our citizens with pleasant, enjoyable places to live. It also provides us with the impetus necessary to protect our natural resources.

I will now proceed with the rest of NACD's recommendations. We have three specific recommendations for the Subcommittee to consider. We want to make clear that these are general recommendations which will need additional work before they can be implemented.

EXPANDED USE OF THE RC&D CONCEPT

In 1981, Congress established a program within the Soil Conservation Service to set-up Resource Conservation and Development (RC&D) areas. These RC&D areas were designed to bring together local and state government, nonprofit organizations, and concerned citizens to identify the means to "conserve and improve the use of the land, develop natural resources, and improve and enhance the social, economic, and environmental conditions of the United States." (USC Title 16, Section 3453) There are currently 194 RC&D's formally chartered in the United States.

RC&D's have been successful in carrying out their mandate during the past eight years. They were organized in areas where citizens had identified a need to promote increased development. The RC&D Councils have proven that a myriad of interests can be brought together to provide solutions to common problems. They are an excellent example of how seed money from the federal government can be multiplied through state, local, and private sources to result in a program many times the size available from federal sources alone. For example, under the leadership of the Headwaters RC&D in Montana, the Silver Bow-Butte local government developed a major grain shipping facility. In Georgia, the RC&D's have received grants which allow them to put on workshops promoting fuel efficiency on farms. In Indiana, an RC&D Council is developing a proposal to distill alcohol from grasses planted to reduce erosion. This alcohol would then be used to produce gasohol.

However, if there is a weakness in the RC&D program it is a narrowness of scope. Most RC&D projects have revolved around resource conservation objectives. While NACD obviously does not oppose conservation projects, we also recognize that not every rural development initiative is going to have a conservation purpose as its cornerstone. In order to develop a broad based rural development program, NACD believes that the joining together of all interested parties embodied by the RC&D concept should be used to pursue all economic development possibilities that present themselves, not just those with a conservation objective.

To accomplish this broad based program, NACD believes that we should build on the foundation provided through the RC&D program. The essential component is to provide the catalyst to local citizens to join together in rural development initiatives. In NACD's opinion that catalyst is the RC&D coordinator or a similar position. What we need is a person assigned to the local community who can draw together government officials and other interested organizations and individuals to begin to identify the development needs and resources of the area. This individual would not be constrained by county boundaries, but instead would seek solutions on a regional level.

Conservation districts could be one of several local agencies used to develop a nationwide rural network to be used to identify the areas ready and willing to pursue a rural development program. The districts could provide the rural development coordinator with a base of operations and entre to local and state government officials and other interested parties. The coordinator would move through this district network to establish local rural development councils based on the model RC&D Council. We fully believe that the conservation district network could identify prime areas ready for assistance which fall outside of existing RC&D areas. In addition, they would function as the "exploration" group that would begin discussions with other districts and units of local government to assess the desire for establishing a rural development project and for establishing the boundaries of the project.

NACD firmly believes that if the federal government is serious about an initiating expanded rural development program, that new resources need to be provided for this effort. However, since the federal deficit has placed limitations on new funding, one way to accomplish the hiring of additional rural development specialists in the short term would be to redirect existing federal funds. One of the least disruptive methods may be to use financial assistance funds from the RC&D account to hire these coordinators. While this is not our preferred method, we may be able to accomplish more rural development through technical assistance than financial assistance.

I would like to add one other point on this topic. NACD believes that the type of person hired to fill these rural development coordinator positions, who are critical to the concept's success, be trained in rural development, fund raising, grant writing and entrepreneurial management. In the past, USDA has had a tendency to use their technical staff as RC&D coordinators. In the future, we would suggest leaving the technical staff in their field positions to work on resource conservation issues and to hire new staff with general rural development experience.

UTILIZING EXISTING RENEWABLE NATURAL RESOURCES

NACD feels that any comprehensive rural development program must contain a component on wise use of existing renewable natural resources. Afterall, when one thinks of rural areas our minds turn to pastoral scenes of forests, streams, wildlife, rangeland, and farmland. What we are suggesting is nothing new. We just want to ensure that new programs continue to recognize renewable resources as being an abundant source of raw materials which can be processed in rural areas, creating jobs and economic vitality.

In the past, we have tried several federal initiatives to promote establishment of industries that add value to raw materials at the point of production. Current literature suggests that we have had limited success with this approach in the past. The government has tried to use low-interest loans and income tax measures to entice value added processes to locate in rural areas. NACD recognizes that we need a larger package of assistance to make this work.

In order to make the most of these opportunities to process raw materials near the place they are produced, we need to make capital available to entrepreneurs in rural settings. To accomplish this NACD suggests that Congress consider the establishment of a national rural development center which could have information on available raw materials, possible uses of these materials, location of these materials, information on local infrastructure and would provide a source of start-up and operating capital.

America's conservation districts could assist with cataloging the available resources, amounts produced and possible uses of these materials. In addition, information would also come from public and private research organizations on uses of natural resources. This information, from all over the country, could then be compiled into a central repository from which it could be easily retrieved. Also to be included in this data bank would be information on existing government programs to assist with rural development projects.

In order to provide a source of venture capital, this center would be established in a way to allow for investment by the private sector in national rural development enterprises. The methods used to do this are varied but the important concept is to design a national center which allows the public to invest in rural enterprises through a single body, thereby resulting in greater efficiency while limiting federal expenditures.

ESTABLISHING A SINGLE USDA RURAL DEVELOPMENT AGENCY

There has been several efforts in the past to consolidate all USDA rural development programs into a single agency. Currently, several agencies have rural development components to their missions. SCS has the RC&D program. Farmers Home Administration has a wide array of loan and guarantee programs designed to promote rural development. Even the Forest Service has programs dealing with rural development through use of forest products.

From our viewpoint, this appears to be an inefficient way to administer a comprehensive national program. It results in a fractured program that lends to the frustration of citizens trying to accomplish anything in the rural development arena. There is no single agency to go to for advice and assistance, which means that people spend too much time trying to find answers.

NACD believes that all of the USDA rural development programs should be combined under the RC&D program with total authority for all rural development initiatives. This should lead to a more efficient and effective rural development program.

Thank you for the opportunity to appear today. I would be happy to answer any questions regarding our recommendations.

THE NATIONAL GRANGE

STATEMENT OF

THE NATIONAL GRANGE

PRESENTED BY

LEROY WATSON

LEGISLATIVE REPRESENTATIVE

BEFORE THE

HOUSE AGRICULTURE SUBCOMMITTEE

ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT

JUNE 27, 1989

RE: PROPOSALS FOR RURAL DEVELOPMENT

Family Farm Organization Serving Rural America

THE NATIONAL GRANGE, 1616 H STREET, N.W. WASHINGTON, D.C. 20006

My name is Leroy Watson. I am a legislative representative for the National Grange. On behalf of the 330,000 Grange members nationwide, I would like to thank you, Mr. Chairman, and your Subcommittee, for inviting us to testify on the important issue of rural development.

This testimony could be subtitled, in part, "Confessions of a Repentant Sinner" because for too many years, the National Grange, along with most of the other general farm and commodity organizations, preached the philosophy that there was little wrong with rural America that putting a profit back in agriculture would not cure. We felt vindicated by the prosperity of U.S. farms and by rural population increases and economic growth that exceeded the growth in the urban areas during the 1970s.

By the mid 1980s, most rural communities were declining in population due, in part, to the economic problems in basic resource industries, such as farming. But other important rural problems, which were masked by the short lived rural prosperity and a preoccupation with agricultural concerns, now haunt rural communities, turning them into ghost towns. Only one in every 12 rural people lives on a farm. Per capita, rural dwellers are poorer than are urban dwellers. They experience more unemployment and underemployment. They tend to have less formal education. They more frequently live in substandard housing and lack adequate access to information, communications, financial, health care, transportation, and other benefits of the booming service sector of the United States' economy.

We have gathered inspiration from the Grange's past for future rural development efforts. The National Grange has historically been at the peak of its influence and respect when we have fought to guarantee that rural Americans, both farmers and non farmers, have all of the opportunities and protections that urban Americans enjoy. Grange leadership helped to establish the government's regulation of railroads and monopolies, Rural Free Mail Delivery, rural electrification, and interstate highways. We believe that adoption of many of the proposals I am about to outline can serve as a foundation for lasting rural prosperity.

The National Grange's rural development proposals are centered around six major areas of concern: transportation, health care, agriculture, communications, business development, and education. These proposals reflect adopted National Grange policy. In addition, they draw upon successful examples of community development that are demonstrated each year by thousands of local Granges across the nation through the National Grange's Community Service Program.

TRANSPORTATION

Last November, in his Annual Address at the National Grange's 122nd Annual Convention, National Grange Master Robert Barrow spoke at length about the transportation crisis that is facing America's rural road system. He said, "Rural roads are not only essential to the movement of farm goods to market...but they are essential to the vitality of our nation's economy. Maintaining adequate rural roads and bridges is essential not only to accommodate the personal transportation needs of the community but to encourage national, industrial, and economic growth as well." He went on to explain that the present condition of rural roads discourages economic growth and increases the operating costs of firms that must use those roads to transport their goods. For example, poor roads can increase the operating costs of a combination truck by 6.3 cents per mile. Roads that are in "fair" condition increase truck operating costs the same as if the tax on diesel fuel had been increased by 32 cents per gallon. The increased cost of operating trucks over rural roads decreases our nation's competitiveness and steals money from everyone's pocketbook.

The economics of the deteriorating rural roads are not our only concern. Roads and bridges that are in poor condition constitute a direct safety threat to vehicle operators and passengers, including children who are riding in school buses. Poor rural roads increase the response time for emergency services, such as police, fire and medical needs. In extreme cases, deteriorating roads can contribute to vehicle breakdowns, stranding motorists in potentially dangerous situations. This deterioration is especially critical for roads that are maintained by local governments.

According to the USDA's Office of Transportation, local roads constitute 69% of the nation's highway mileage. Local, rural roads constitute 82% of that total, meaning that 56% of all U.S. road mileage is rural, local roads. Yet, only 20% of the local, rural road system and 40% of the rural bridges are eligible for direct federal Highway Trust Fund (HTF) assistance. In 1986, barely 3% of HTF dollars were distributed to local governments. Very few of the 97% of HTF dollars that are distributed to state governments filter down to the roads that are not on the Federal-Aid Highway System (on system). Rural residents pay more per capita into the HTF than do their urban cousins, but they are finding themselves to be more and more isolated from commercial and other service opportunities by the very system they helped to finance.

Even an adequate road system would not guarantee adequate transportation opportunities for rural Americans. Households without an automobile represent 15% of all rural families, including 57% of the rural poor and 45% of the rural elderly. Over half of the rural households that do own cars have only one vehicle, which means the family is often without transportation while the breadwinner is at work. Less than 1% of rural workers have access to public transportation. Only 359 of the nation's 20,000 communities that have a population of 50,000 or less are served by local, public transportation systems.

Grange members across the nation are convinced that rural America is "back in the mud" again. Our organization is launching a major, new, public educational and political initiative to bring the plight of local, rural roads to the attention of both Congress and the nation. It is called "Local Roads and Bridges". We will be in direct contact with our 4,000 local chapters across the nation to assist them in building local coalitions to press for the resolution of this problem. Here in Washington, D.C., the National Grange will target legislation reauthorizing the Highway Trust Fund in 1991 to better accommodate the needs of local, rural roads.

Admittedly, the vastness of the rural road network means that even with increased resources, priorities will have to be established. For this reason, we are calling today for a small portion of HTF monies to be provided to state highway departments for transportation planning and priority setting for each state's entire rural road network, both on and off system. HTF monies for urban and metropolitan transportation planning have been available for many years, but rural transportation planning has been sorely neglected. A few states, such as Pennsylvania, Washington, and North Carolina, have begun some rural transportation planning initiatives on their own. It is time for the federal government to provide funding for all states to move in this direction.

We also believe that improved rural mass transportation cannot wait for the enactment of new Federal-Aid Surface Transportation legislation in 1991. We are strongly supporting H.R. 368, which was introduced by Rep. Virginia Smith of Nebraska to amend The Urban Mass Transportation Act to increase the percentage of funds that are allocated to rural areas. Passage of this legislation should be a rural development priority.

HEALTH CARE

Last fall, the Master's Address also discussed rural health care needs. He said, in part, "We who are committed to rural development know that access to adequate health care facilities is essential to economic development. A major problem that is facing rural areas is inadequate health care resources. The 1980s have served as an important turning point in our nation's health care system. As well intended as the Medicare Prospective Payment System is, there are clear inequities which translate into financial burdens for rural hospitals."

Urban hospitals receive an average of 35% more Medicare reimbursement than do rural hospitals for the same medical procedures. Federal government health care reimbursement programs are critical to rural hospitals because a higher percentage of rural residents are senior citizens. Because unemployment in most rural areas is above the national average, there is also a higher reliance on Medicaid.

Another financial pressure that is facing rural hospitals comes from some private, for profit, insurance companies. To control premium costs, insurance companies may require rural patients to travel to distant, preapproved hospitals, thus diverting business from the local hospital.

A recent report by the Senate Select Committee on Aging says that 159 rural hospitals in the United States have closed since 1984 - 43 of those in the past year. Administrators in 60% of the rural hospitals believe their hospital is vulnerable to financial failure. Eighty percent of all of the hospitals that lost money in 1987 were rural hospitals. If this trend continues, the Senate Select Committee predicts that 600 additional rural hospitals may close in coming years.

The loss of a rural hospital has a tremendous impact on a rural community. Areas without hospitals cannot attract new employers or residents. Hospitals are major employers. Hospitals also mean that doctors can establish private practices in rural areas, and nursing home services are more readily available. As some rural hospitals seek to better serve the medical needs of their community by shifting their emphasis to more outpatient services and shorter visits, they are evolving into cooperative health care networks with larger regional or urban hospitals by referring patients who need advanced services to the urban health centers. Conversely, rural hospitals also act as branch offices for urban specialists when they visit rural communities.

The Grange has been a leader in providing answers to rural health care problems. One method that was tried in the rural parts of Washington State has been the establishment of Public Hospital Districts to provide hospitals with local tax revenue. So far, in each case, the voters have overwhelmingly supported their local hospital. A local, rural hospital administrator from Washington and a veteran of two recent Public Hospital District Campaigns in different parts of the state, told our office last month that in each campaign that he was involved with, the best friend and ally of the local hospital was the local Subordinate Grange.

The Grange has taken an active role in the direct delivery of health care services to rural residents. Dozens of State Granges, and even some county Granges, offer their members competitive health insurance programs, or locally-based Health Maintenance Organizations. Many of these insurance services, or HMOs, are the oldest services of their kind for rural residents in their respective areas. There are also a number of Grange retirement communities across the country that are designed to provide a higher level of personal and medical care for older Grange members than do totally independent living arrangements.

We also need to give farmers and other self-employed people the same tax benefits for health insurance that corporate employers have. While corporations can deduct 100% of their employees' health insurance premium costs, farmers and other self-employed people may deduct only 25% of their premium costs. Furthermore, this deduction is scheduled to expire this year. The National Grange supports extending the current 25% premium deduction for farmers and other self-employed people and further supports H.R. 2121, which is sponsored by Reps. Byron Dorgan and Hank Brown, which would expand the deduction to cover 100% of their premium costs.

The National Grange strongly endorses H.R. 762, which was introduced by Rep. J. J. Pickle, and its companion bill, S. 306, which would, in part, eliminate the urban-rural differential in Medicare payments over a four year period starting October 1, 1991. The legislation would further provide funds to help rural hospitals adjust to the changes in the health care marketplace through the Rural Hospital Transition Grant Program by increasing expenditures for the program from $15 million to $25 million.

AGRICULTURE

While we no longer believe that simply putting a profit back in the agricultural sector will resolve all of rural America's problems, we are still firmly convinced that rural development should have a strong agricultural and farmer component. Many studies indicate that the farm structure and quality of life of rural communities are strongly interrelated. Since World War II, a structural change has occurred in the United States' agricultural sector that was led and fed by federal commodity policies, tax laws, trade, and foreign and fiscal policies. Often, these policies were supported by the Grange as well as other farm groups. What we now believe is that we have built an agricultural production machine that has consumed farmers. We are watching the subsidized consolidation of commercial U.S. agriculture into what the Office of Technology Assessment predicts will be a bipolar agricultural sector: a few large commercial farms that will produce the vast majority of this nation's food and fiber and one to two million small- and medium-sized family farms, many of which will be only partially commercial, or subcommercial, operations.

For too long, agricultural public policy has given scant attention to the small U.S. farmers. Our emphasis has been on production rather than people. Yet, there is compelling evidence that, from the perspective of rural development, it is time to reexamine the questions of farm structure.

In his book "Can The Family Farm Survive", William D. Heffernan, professor of rural sociology at the University of Missouri, states the problem this way, "The structure of agriculture has a bearing on the structure...the make up and vitality of the rural community." Generally, small- and medium-sized farming fits best with the traditional standards for a good community. A community that is surrounded by these farms rates high, as a rule, in economic vitality, citizen involvement in community affairs, and the number and strength of community institutions, such as Granges, libraries, schools, churches, and local, agricultural input suppliers. On the other hand, large scale agriculture is associated with high levels of community population that are living at or below the poverty level, low levels of community services and retail outlets, concentrated community decision making, and low community cohesion.

Small- and medium-sized family farms often do not receive the public policy consideration that larger farms do. But, according to a 1986 report that was published by The American Farmland Trust, small farms, in particular, have a larger impact on rural prosperity than some previous assumptions may suggest.

Slightly more than two-thirds of this nation's farms gross less than $40,000 a year. They account for only 11% of the total agricultural production sector and average only $9,000 a year in sales. Most of these farms are incapable of providing 50% or more of the disposable family income for the families who live on them. They are mostly partially commercial farms that reflect the farm family's need or desire to diversify the sources of the family's income, or they are subcommercial farms that reflect a quality of life, or other non commercial family goals.

The 11% of U.S. farm sales that are accounted for by small farms still translates into $14 billion in sales that bolster rural economic activity. Even though the figures for small farm production are important, the real impact of small farms in rural areas may be in their levels of community investment, consumption, and tax payments. Twenty-nine percent of U.S. farmland is in the hands of small farmers. Thirty-two percent of all U.S. farm equipment and 53% of all tractors are on small farms. In fact, the value of farm equipment on small farms is four times greater per dollar of agricultural sale than is the value of the farm equipment of larger producers. This means that small farmers make important contributions in maintaining property tax bases and farm-related support businesses in rural areas. Property tax burdens on full-time family farms, as well as increased bankruptcy among farm input suppliers, could increase without the vital "critical mass" of economic activity that small farms supply.

A diversified local economy with a preponderance of small- and medium-sized farms may also be more resilient to outside economic shocks, such as last year's drought. In the March 1989 edition of Farmline, ERS Economist Doug Martinez published an article entitled "Droughts' Economic After Effects Differ by Region". In that report, Martinez surveyed both the direct and indirect economic impact of last year's drought on five separate multi county farm areas across the Midwest and Upper Plains states, all of which were severely affected by the drought. Mr. Martinez found that, among the regions he studied, the region of northwest Ohio, with its diverse economy and numerous small farms, suffered a drought-related decline of overall business activity of less than 1%. This happened despite the fact that this same region also suffered the second greatest dollar value amount of farm drought losses of the five regions that were surveyed.

Since 1978, National Grange policy has advocated targeting the direct benefits of federal farm programs to small- and medium-sized family farmers. Targeting benefits to these farmers would assure the United States of a diverse, competitive, and efficient agricultural sector and would help to enhance rural economic activity. It could also free federal budget resources for appropriate small farm and rural development programs. Congress should establish a comprehensive policy of targeting the direct benefits of federal farm programs to the 95% of U.S. farmers who constitute our small- and medium-sized family farms in the upcoming farm bill.

One federal program for small farms that needs immediate attention is an expansion of the USDA's Office of Small Scale Agriculture. Buried deep within the USDA's Cooperative State Research Service, the Office of Small Scale Agriculture is the only entity within the USDA which specifically attempts to provide service to our nation's small farmers. With limited resources, the Office of Small Scale Agriculture currently has five programs that address the needs of the small farmers, which include a newsletter, a survey program of the thousands of agricultural research programs to determine which of them could be adapted to better serve the small farmers, participation in conferences on small farms, preparing fact sheets and compiling a national directory on small scale agriculture.

Sadly, most of the other USDA agencies make little or no attempt to structure their products' services to be appropriate for small farmers. Small farmers need a strong, well funded ombudsman's office in the USDA that has the resources to translate a greater share of the USDA's services to the two-thirds of U.S. farmers who are small farmers. A detailed Congressional review of the mission and goals of the Office of Small Scale

Agriculture, coupled with increased ombudsman authority, would be a substantial boost for both small farmers and rural development.

For our own part, the National Grange plans to focus greater attention on the needs of the small- and medium-sized family farmers. This step will include greater recognition and training of these farmers through programs like the O.M. Kile Rural Leadership Project, which is sponsored by our local Subordinate Grange chapter, Potomac Grange #1, which is located here in Washington, D.C. This project gives young farm couples an opportunity to visit Washington, D.C., to meet with their Senators and Representatives, high executive branch officers, and private industry and trade association representatives. Couples who participate in this training session each year are then expected to apply what they have learned to improve their communities upon returning home. Both of last year's Potomac Grange Rural Leadership young couples were part-time, small farm families.

COMMUNICATIONS

Since championing the fight to establish Rural Free Mail Delivery, the National Grange has recognized that access to communication technology is important to rural economies. The National Grange remains committed to the philosophy that rural Americans are entitled to enjoy the same basic access to communication technology as are urban Americans.

One example of this philosophy can be found in Washington State, where the Washington State Grange has been participating in a pilot project with US West Corporation to provide single line service to rural residents at the same cost that is charged to urban customers. Single line service, at an affordable rate, which is often unavailable to many rural customers in Washington State as well as around the nation, is a necessity if rural areas are going to be able to utilize sophisticated voice and data transmission technology. We believe the Washington State Grange/US West Corporation's pilot program should become a model for similar programs in other states.

Last year, the National Grange supported The Satellite Television Fair Marketing Act, which requires companies that scramble satellite signals that ultimately become available to commercial cable TV customers to provide comparable unscrambling services, at affordable rates, to owners of satellite dishes.

This year, the National Grange is supporting H.R. 2437 and its companion Senate legislation, S. 1068, The Cable Competition Act. H.R. 2437 would improve television programming competition, would prohibit discrimination by cable programmers, and would permit telephone companies to provide video programming.

Telephone service, which is by no means universal in rural areas, is still far more prevalent in rural areas than are cable information services. Allowing telephone companies to provide cable information services will offer a greater number of rural Americans an opportunity to become part of the information age. Increasing the competition for such services in rural areas will further the goal of universal communication services for all Americans at little or no cost to taxpayers.

Since 1985, the National Grange has offered its members discount subscriptions to a comprehensive agricultural and farm database system that can be accessed through most personal computers and phone lines. In addition, this system offers "bulletin board type" services that allows Grange members to directly communicate with each other and to share information. We believe that comprehensive information and communication systems, such as the one that the National Grange now offers its members through the AgriData Company of Milwaukee, Wisconsin, will become more important to the health of rural communities in the future.

BUSINESS AND ECONOMIC DEVELOPMENT

Economic diversity and a renewed entrepreneurial spirit will be crucial to the future success of rural America, where 90% of this nation's natural resources are located. Rural America is also a place where a vast number of Americans choose to spend their leisure time and where they choose to retire. Rural work forces are generally noted for their strong work ethics and commitment to quality.

For too many years, however, rural communities sought to diversify their economies by offering employers only low taxes and low wages. Regretfully, low tax and low wage employers have inevitably become attracted to even lower tax and wage hosts in foreign countries.

The National Grange believes that community-generated entrepreneurship offers a greater opportunity for rural communities to diversify and prosper. Unfortunately, over the past decade, severe economic setbacks in many traditional pillars of the rural economy have made rural residents and businesses risk averse. Rural development policy must be drafted with this concern in mind.

Federal agencies that own or regularly acquire land should be required to conduct a comprehensive Federal Land Inventory and Procurement Review. This Review should be specifically directed toward establishing federal land use policies that enhance rural economic opportunities. The federal government owns approximately 727 million acres of land in the United

States. In 1987, the President's Commission on America's Outdoors noted that there were numerous opportunities for public-private, commercial partnerships on or near existing federal holdings. "Vast tracks of public lands that are available for outdoor recreation are not being fully utilized," the Commission's final report said. Examples that were cited by the Commission were ski areas in national forests, outfitters and guides on public land and water, and concessionaires in national parks. In addition to federal parks and forestland, decommissioned military bases with established facilities and infrastructures could offer nearby rural businesses prime locations and opportunities.

Major, federal, property owning agencies, such as the USDA, the DOI, the DOD, and the GSA should be required to conduct property inventory reviews and report their findings to Congress within two years. Each agency should be directed to devise a ten year plan that will better utilize the federal land under their jurisdiction to enhance rural economic and business opportunities. Such plans should be consistent with existing agency missions, but should not preclude the appropriate sale, swap, or lease of land to private businesses. In fact, Congress should ask these agencies to set a goal of at least $500 million in additional federal revenues from the sale, swap, or lease of federal properties for appropriate rural development by the year 2000. This $500 million should then be reapplied to federal rural development programs.

Uncoordinated private land acquisition by federal agencies can imperil local, rural economies and tax bases. Nine separate reports that were issued by the General Accounting Office from 1978-1988 have clearly documented the bureaucratic abuses of power by various federal land acquisition agencies. In those reports, the federal agencies were shown to be buying more land than they were supposed to, they were buying land they didn't need, they were failing to use cost-effective alternatives (such as purchasing development rights), and they were ignoring the needs and concerns of local communities, landowners, and local governments. Congress should direct land acquisition agencies to include in their ten year plans steps to avoid the unnecessary economic dislocation of rural communities and private businesses as they carry out their assigned tasks.

The National Grange believes that both Congress and federal agencies should move cautiously before enacting any further significant restrictions on private resource harvest activities on federal land. A suit that was filed in federal court to protect the habitat of a rare owl has threatened to shut down much of the timber industry in Oregon. There are proposals pending before Congress that would severely disrupt the existing mining, animal grazing, and logging activities on federal land. These industries, and their support activities, have traditionally provided above average wages for rural workers. Many rural communities are currently depending upon these resource activities for much of their livelihood. Using caution before enacting policies that disrupt traditional rural economies would set a wise rural development course.

Government lending and venture capital programs that are administered through the Farmers Home Administration, the Rural Electric Administration, and the Small Business Administration will also be vital to successful rural development. The National Grange supports the directions that are being taken in S. 1036, The Rural Partnership Act. Among the proposals that are now under consideration in this Act are a $100 million revolving loan program to match the local dollars that are used for business creation and expansion, $40 million in new lending authority for rural water systems, and the expansion of telecommunication links for businesses, schools, and health care facilities.

Successful business and economic development will require a spirit of entrepreneurship and community cooperation in order to be successful. It may come as a surprise to many people but the Grange has a history of sponsoring business-related activities on the local, state, regional, and national levels. Almost always, Grange business-related activities have strived to meet the unmet economic needs of rural Americans. Through these efforts, former and current Grange-affiliated companies have become household words and successful business entities. For example, Montgomery Ward and Co. began as a mail order, retail shopping service that was exclusively for Grange members. Many successful farm, home, and garden supply cooperatives, such as Agway and Southern States, were also started by the Grange. Prominent, medium-sized insurance companies, such as the National Grange Mutual Insurance Company and Farmers and Traders Insurance Co., can trace their roots to the Grange. Over the years, Grange companies have merged with non Grange companies to better serve their farm and rural customers. An example of this would be the merger of the Grange Supply Cooperative and the Farmers Union Central Exchange (Cenex).

Over the years, some Grange enterprises have failed as well. Some early Grange businesses attempted to establish alternative farm implement manufacturing companies. Another proposal would have established a Grange railroad company to compete with the 19th century railroad monopoly.

Numerous local Grange supply and retail cooperatives have come and gone during our 122 year history.

Today's local Grange members have access to Grange-sponsored services and products, such as credit unions, insurance companies, discount product purchase programs, supply cooperatives, marketing services, investment services, computer information services, newspaper and publishing services, bed and breakfasts, travel services, and retirement communities. Thousands of Grange-owned Grange Halls across the nation provide many rural communities with their best equipped, and most versatile, meeting facilities. Other examples of Grange capital investments in local communities includes ballfields, fire/ambulance stations, county fairgrounds, summer camps, and some office/retail space.

Local Grange members have always been entrepreneurs and risk takers. Members of Congress should rest assured that Grange members across the nation are prepared to step in to offer their local communities' expertise and leadership in rural economic and business development.

EDUCATION

The Grange's Declaration of Purposes, which expresses the common principals that are accepted by every individual who joins the Grange, states, in part, "We shall advance the cause of education by all just means in our power." Our concern with rural education dates from the founding of our organization.

According to the Census Bureau's statistics, the average urban/suburban resident has 11.6 years of formal education while the average rural resident has only 10.9 years. High school drop out rates in urban/suburban areas average 15% while rural schools average 16.9%.

Urban/suburban areas have 39% more college educated residents per capita than do rural areas.

Rural schools are often financially hard pressed to prepare their students for a productive life in the 21st century. Many rural tax bases have eroded due to economic problems. Rural school districts, like most other rural white collar employers, have difficulty recruiting and retaining a fair share of top notch teachers. The rural net outmigration, especially among people who are 16 to 34 years of age, means that young families with children are becoming a smaller percentage of the total population with an equally reduced political influence in their communities.

We believe that one answer to rural education problems is the "star school concept". These schools would employ cost-effective, advanced telecommunication technology, which would allow a single instructor to reach more students over a broader geographic area than is currently possible. It would give students opportunities to participate in a greater number of challenging elective subjects that cannot currently be justified in smaller rural school systems.

Star school technology could also be used as the basis for advanced telecommunication services for rural businesses, health care, and public service agencies. A star school program is currently part of the Senate's Rural Partnership Act proposal.

The Grange is deeply committed to educating our rural youths. Each year over $100,000 in scholarships and low interest loans are awarded to promising young rural students. The National Grange spends an average of $35,000 annually to coordinate state and local programs for young Grange members that offer rural youths wholesome, recreational and educational experiences as alternatives to crime, drugs, or unproductive mischief. Many local Granges have strong ties with vocational agricultural student organizations in their communities. Over 25,000 copies of the National Grange's deaf and hearing impaired educational program for fourth, fifth, and sixth graders have been distributed to both school systems and student organizations across the country. We see future opportunities for local Granges to continue these and other educational programs.

Education does not end with the formal education process. It is a life long experience. Often, circumstances require an individual to seek further education in order to reach his or her life's goals. We believe there is a pressing need for adult education programs in rural communities.

One example of adult education in rural areas is job retraining programs. Economic dislocation in rural communities has forced many people to change their employment. New emphasis on job training in rural areas would allow displaced rural workers to find new employment. We support dedicating a percentage of the existing federal job training programs, such as the Job Corps and the Job Partnership Training Act, to be used specifically to expand the training opportunities of rural residents.

Another example is volunteer leadership training. Many rural organizations, such as the Grange, rely upon volunteers to accomplish their missions. Many rural governments have a high proportion of volunteers serving in management or oversight positions. Most experts believe that local participation in the form of volunteer-oriented initiatives is an absolute necessity if rural development is to succeed.

Last year, the National Grange sought to address the problem of volunteer leadership shortages in our Grange communities. Participating in local Grange activities has always been regarded as an outstanding leadership training experience. However, last year, we at the national level determined that it was appropriate to design a formal volunteer leadership training program for our members.

Designed in conjunction with the University of Maryland's Extension Service, the Grange Leadership/Membership Program (L/M) is premised on the assumption that local Granges that work harmoniously together and that are viewed in their communities as being active problem solvers, will attract new members and will, in turn, provide rural communities with new leaders who will address local problems.

The need for this type of program was expressed by Mr. Don McFeeders, acting associate director of extension at the University of Vermont, earlier this year when he addressed the kick-off L/M training program in Vermont. He told the assembled Grange members that there were almost 5,500 volunteer positions in local and state governments that have to be filled each year in order for the government in Vermont to function properly. This represents 1% of the total population of the state.

Our program focuses on training a core group of volunteers in each state to, in turn, provide similar training for local Grange chapters. We focus on conflict management, goal setting, and communication skills that are necessary for volunteer groups to function effectively. We also point out how natural personality differences and decision making styles can be transformed from divisive events into positive efforts.

The Grange's L/M Program is currently underway in 10 states and more State Granges are expected to participate in the program over the coming months. We believe that Congress should provide additional direction to rural education-related organizations, such as the Extension Service, to continue to develop and distribute adult volunteer leadership educational material. Volunteers will be a key to successful rural development. Ongoing education will be the key to successful volunteers.

STATEMENT OF STATE REPRESENTATIVE WALLY SPARBY OF MINNESOTA ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES REGARDING RURAL DEVELOPMENT. SUBMITTED TO THE HOUSE AGRICULTURE SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT.

I am Representative Wally Sparby of Minnesota. I am currently a member of the Minnesota House of Representatives and have served as Vice Chair of the Agriculture, Food Policy and Rural Development Committee of the National Conference of State Legislatures ("NCSL"). I am here today on behalf of NCSL, which serves the legislators and staffs of the nation's 50 states, its commonwealths and territories, because the nation's legislators are committed to rural development.

Any legislation enacted must reflect the fact that states have faced economic downturns in several rural industries, including agriculture, mining, forestry, and manufacturing. Rural economies are also plagued by an aging rural population, and a lack of infrastructure, adequate health care, education and housing. These problems result from the fact that millions of rural residents have lost their jobs and farms, while millions more have fled to the cities. Those who remain and are able to maintain some type of employment are relegated to income levels so low they cannot draw themselves out of poverty. Moreover, the geography has left rural areas out of many new developments; such as advanced communications and transportation. Rural America lags far behind their urban counterparts in the two areas. The region is also restrained by the fact that industry has not moved their advanced functions such as research and development to rural America.

States recognize that some important factors in solving the problems of these areas and promoting a healthy rural economy include economic diversification, venture capital availability, job training, education and infrastructure financing. The Senate budget resolution for 1990 set aside $300 million in the discretionary agriculture function for rural development; the states would be willing to work within these parameters. The problems of rural America cannot be solved with $300 million, but states recognize federal budget limitations. Any match required by the federal government should leverage private as well as public dollars.

The question regarding the role of states in rural development remains. NCSL believes the responsibility for devising and administering rural programs should fall to state governments. Several states already have developed innovative strategies. My home state of Minnesota has enacted one of the most comprehensive state policies in existence. Any legislation that Congress approves should not bypass the states, because we currently have structures in place and have the capability to coordinate services so that community programs do not overlap. States can also serve as repositories for localities seeking information about federal programs.

There is an important role for the federal government to play. The federal government must form a joint partnership with the states. The two entities should work together to address the problems of rural America, such as slow job growth and high unemployment, outmigration and reduced population growth, and underdeveloped human resources. This cooperative relationship requires a commitment by both entities, to identify opportunities for joint investment and targeting these investments toward rural projects.

Congressional strategies should support efforts to build the agricultural base but recognize that the rural economy is dependent upon several areas.

Manufacturing, mining and government are important, as well as services which account for a major portion of the employment base.

STATE PROGRAMS

States are very innovative in development of rural programs. These projects can multiply with the assistance of the federal government. In my home state of Minnesota, the legislature passed one of the most comprehensive economic development programs ever enacted in the state. The Rural and Economic Development Act of 1987 emphasizes community needs rather than direct business asssistance. The law also creates programs in forestry, mining and agriculture to better utilize Minnesota's natural resources. Training for farmers and dislocated workers increases the employment base in the state.

In order to implement these rural economic development initiatives, the state created several new quasi-public authorities. One of the new creations, the Rural Development Board, is responsible for creating rural development strategies. To create a source of capital for public facilities, the state established the Public Facilities Authority, responsible for providing grants and low-interest loans to communities for water and sewer facilities. The funding for the grants and loans will come from state and federal grants and the sale of general obligation bonds. The Greater Minnesota Corporation was established to promote jobs and economic growth through research, technology transfer, and product development. The Challenge Grant Program established under the law makes grants to regional organizations to encourage private investment, create jobs for low-income persons, and promote economic development in rural areas of the state. The program commits the state to create grants of up to $1,000,000 over three years to six regional organizations to establish regional revolving loan funds. The regional organizations must match the state contribution with an equal sum, to be allocated for specific business loans on a project-by-project basis. Each sum that is appropriated from the regional revolving loan fund must be matched by further private investment.

The Mississippi legislature took decisive action in 1988 to respond to the problems of rural areas by passing the Rural Economic Development Finance Act. It consists of $20 million in bonding authority for specific use in rural areas and for small businesses. Five million dollars of the funding was earmarked for rural communities of 15,000 or less with an unemployment rate of 10 percent or greater. State and local incentives were included to encourage industry to participate in the program. The law establishes a long-term financing program for small businesses and entrepreneurs. The result should be economic growth for rural Mississippi. The Economic Development Act also set up a state fund for local governments to build roads for industries that are investing in the community.

Maine has created a state financing agency known as the Finance Authority of Maine (FAME), responsible for administering financial assistance programs in the state. State lawmakers have enacted more than two dozen different programs in relation to FAME. Most eligible recipients for these programs are in rural areas. An example of a program offered through FAME is the Maine Job Start program. The Job Start program is a revolving loan program designed to provide the small businesses with the necessary capital to start, strengthen, or expand a business operation. The Maine Jobs Grants program provides businesses that locate in designated job opportunity zones with up to $1,250 for the creation of each new full-time quality job.

Other states provide asssistance to rural residents through the Cooperative Extension Service. In Oklahoma, the Cooperative Extension

Service, located at Oklahoma State University in Stillwater, provides technical assistance to farmers, ranchers, and other rural residents regarding agricultural production and family-related living issues. Additionally, the Extension Service encourages economic development, business development and community service. The Cooperative Extension Service provides a hands-on workshop for rural leaders, helping them develop community economic development plans. Resource materials to help the local business community are extremely important, so the Extension Service conducts programs on business development, financial management and advertising. To expand the economic base and make rural areas attractive to new industry, the Extension Service also conducts seminars on expanding medical services, rural water systems, solid waste systems and rural transportation systems.

In 1987, the Kansas legislature called for economic development committees to be established around the state. As a result, economic development has been given increased emphasis in all educational programs at state and county levels. Extension specialists provide committee members with in-depth training in economic development and rural revitalization.

At least 25 percent of state agencies' budgets in Illinois must be spent in rural areas. The North Carolina and Pennsylvania legislatures allocate state funds for regional organizations with an emphasis on rural revitalization. Arizona enacted a law designed to promote economic development through education and training. The Montana legislature enacted a law which requires the state to make investments in agricultural development projects. As evidenced by these programs, the state legislatures have taken an active role in the promotion of rural development.

REVITALIZING THE RURAL COMMUNITY

States have a key role to play in rural development. They have taken the initiative in creating innovative economic development projects. However, states recognize that any legislation which seeks to revitalize rural America will have to encompass support for all aspects of community life, including agriculture, infrastructure, education, telecommunications, public services, health, and housing.

Agriculture has been plagued by falling farmland prices and the continued exodus of labor from farming. These factors hurt farm communities in several ways. As prices of real estate decrease, so does the major source of local revenue. Public services cannot be met when this happens. Furthermore, labor leaves the region, making it less attractive for industry to locate. Any rural development legislation enacted by Congress must seek to bolster the agricultural base.

Infrastructure is extremely important for rural economic development to flourish. Roads, bridges and airports are vital if rural America is to be connected within and outside of the community. These regions have been plagued by limited access to any form of public transportation. Furthermore, the development of water and sewer programs to ensure safe drinking water supplies are vital. Although efforts to address this problem have been undertaken, these areas need a comprehensive strategy for future development.

The tax base of most rural communities is very small. Unless new economic development programs bring in additional revenue, education programs in rural areas will require support from larger units of government. Rural school involvement in job training and the elimination of literacy should be increased. Adults as well as children must be reached through education.

Telecommunications and technology need to be improved in rural areas. The U.S. is close to achieving universal phone service, with about 96 percent of households having service. Even so, installation costs preclude some isolated homes from having a telephone, particularly some farms and ranches; low profit-low volume rural areas are often the unserved. Additionally, residents of rural areas generally have party lines, which prevent new technology from entering the community through devices such as computer modems. As many as half of the farmers have party lines, and conversion to private lines may be costly. In order to create an atmosphere which is conducive to business relocation to this area and to connect rural America with outside communities and with one another, legislative policies must include a telecommunications strategy.

Access to adequate public services such as police and fire, as well as housing and health must all be part of any rural development policy. The provision of health care is extremely important in these areas because of the large amount of uninsured persons. In the mean time, rural hospitals continue to close and retaining physicians has become increasingly difficult.

CONCLUSION

The time has come for the federal and state governments to join together in a comprehensive national effort to stem the tide of decline in rural communities and the exodus of its citizens. The federal government and states must identify opportunities for joint investments targeted not only to rural development but to services for the community. States remain committed to rural projects. This has been evidenced by the continuity with which state legislatures have enacted legislation in this area. Further, even though federal funds for programs related to rural development have declined over the years, state allocations for economic development continue to increase.

Intergovernmental cooperation will help insure the success of rural development in the states.

I will conclude by saying that it is very important that any federal rural development program not bypass state governments. Programs that bypass states, abrogates the states' ability to coordinate the projects and result in duplicative community efforts. States have proven their commitment to rural development through the creation of several innovative programs and we are ready to accept the role of coordinator for these efforts. We recognize that these programs will be leveraged with state and private funding, consequently, it is important that states play a major role in determining the allocation of resources.

Thank you for the opportunity to speak before the Subcommitee on Conservation, Credit and Rural Development today. The National Conference of State Legislatures remains willing to work with Congress to create a rural development policy.

TESTIMONY
OF
WILBUR F. HAWKINS
EXECUTIVE DIRECTOR
LOWER MISSISSIPPI DELTA DEVELOPMENT COMMISSION

AS EXECUTIVE DIRECTOR OF THE LOWER MISSISSIPPI DELTA DEVELOPMENT COMMISSION, A FEDERALLY FUNDED COMMISSION DESIGNATED TO ADDRESS THE SEVERE RURAL PROBLEMS OF THE POOREST REGION OF THE COUNTRY, I WELCOME THIS OPPORTUNITY TO TESTIFY BEFORE THIS DISTINGUISHED PANEL AS IT EXAMINES PROBLEMS AND SEARCHES FOR SOLUTIONS TO THE PLIGHT OF RURAL AREAS NATION-WIDE.

I WANT ESPECIALLY TO THANK YOU, CHAIRMAN ENGLISH, MY GOOD FRIEND CONGRESSMAN MIKE ESPY, AND THE OTHER DISTINGUISHED MEMBERS OF THIS SUBCOMMITTEE, FOR PROVIDING A FORUM FOR SERIOUS CONSIDERATION OF RURAL DEVELOPMENT ISSUES. I SHOULD ALSO SAY THAT FORMER CONGRESSMAN ED JONES, NOW OUR COMMISSIONER FROM TENNESSEE AND FORMER CHAIRMAN OF THE SUBCOMMITTEE, SENDS HIS BEST WISHES AND APPRECIATION FOR YOUR CURRENT WORK ON RURAL DEVELOPMENT.

TODAY, I WILL PROVIDE AN OVERVIEW OF THE ROLE OF THE LOWER MISSISSIPPI DELTA DEVELOPMENT COMMISSION, A PROFILE OF THE PROBLEMS IN THE DELTA REGION, FOLLOWED BY A REVIEW OF SOME POLICY RECOMMENDATIONS THE DELTA COMMISSION IS CONSIDERING.

THE LOWER MISSISSIPPI DELTA DEVELOPMENT COMMISSION WAS ESTABLISHED IN 1988 BY PUBLIC LAW 100-460, THE DELTA DEVELOPMENT ACT, WHICH WAS INTRODUCED IN THE HOUSE BY CONGRESSMAN MIKE ESPY AND IN THE SENATE BY SENATORS DALE BUMPERS AND THAD COCHRAN. IT WAS BROADLY SUPPORTED BY BOTH PARTIES, AND SIGNED INTO LAW BY PRESIDENT RONALD REAGAN.

THE DELTA ACT DESIGNATED THE LOWER MISSISSIPPI DELTA AS

THE POOREST, MOST UNDERDEVELOPED AND ECONOMICALLY DEPRESSED REGION OF THE COUNTRY. IT ESTABLISHED A FEDERAL COMMISSION, MADE UP OF ONE MEMBER FROM EACH OF THE SEVEN STATES IN THE REGION AND TWO PRESIDENTIAL APPOINTEES, TO STUDY BOTH PROBLEMS AND SOLUTIONS IN THE REGION. THE COMMISSION MUST SUBMIT ITS FINAL REPORT TO CONGRESS IN MAY 1990, MAKING RECOMMENDATIONS AND DRAFTING LEGISLATION TO BE PRESENTED TO CONGRESS, THE PRESIDENT, AND STATE AND LOCAL GOVERNMENTS IN THE FORM OF A TEN-YEAR STRATEGIC ECONOMIC DEVELOPMENT PLAN. OUR GOAL IS TO IMPLEMENT A COORDINATED ECONOMIC RECOVERY PROGRAM FOR THE DELTA BY THE YEAR 2000.

LOCATED ALONG ONE OF THE GREATEST RIVERS IN THE WORLD, AND INCLUDING THE NATIONS RICHEST FARM LAND, THE DELTA REGION CONSISTS OF SEVEN STATES: FROM THE SOUTHERN TIP OF ILLINOIS, DOWN THROUGH SOUTHEASTERN MISSOURI, WESTERN KENTUCKY AND TENNESSEE, AND ON DOWN THE RIVER TO MISSISSIPPI, ARKANSAS AND LOUISIANA, WITH 204 OF ITS 214 COUNTIES IN RURAL AREAS. THIS REGION HAS LONG SURPASSED EVERY REGION OF THE COUNTRY IN TERMS OF MEASURABLE POVERTY--NUMBERS OF POOR COUNTIES, LOW PER CAPITA INCOME, AND UNEMPLOYMENT. ACCORDING TO THE CENSUS BUREAU AND THE CONGRESSIONAL RESEARCH SERVICE, ALL BUT THREE OF THE REGION'S RURAL COUNTIES ARE WELL BELOW THE NATIONAL AVERAGE IN EACH OF THESE CATEGORIES.

FOR EXAMPLE, TUNICA COUNTY, MISSISSIPPI, CONSIDERED THE EPICENTER OF THIS CRISIS AREA, AND IN CONGRESSMAN ESPY'S DISTRICT, IS THE POOREST COUNTY IN THE COUNTRY WITH 52.8 PERCENT OF ITS POPULATION LIVING IN POVERTY. ACROSS THE

RIVER IN ARKANSAS, ST. FRANCIS COUNTY HAS EXPERIENCED AN UNEMPLOYMENT RATE AS HIGH AS 30.0 PERCENT--MORE THAN FIVE TIMES THE CURRENT NATIONAL AVERAGE; AND LEE COUNTY, ARKANSAS HAS A PER CAPITA INCOME OF ONLY $6,643, 48% BELOW THE NATIONAL AVERAGE. I CAN PROVIDE SIMILAR STATISTICS FOR EVERY COUNTY AND PARISH UP AND DOWN THE REGION ON BOTH SIDES OF THE RIVER. SUCH STATISTICS HAVE CONSISTENTLY RANKED MISSISSIPPI AS THE POOREST STATE IN THE UNION, WHERE ONE FAMILY IN FIVE LIVES IN POVERTY--TWICE THE NATIONAL AVERAGE! LOUISIANA RANKS SECOND IN POVERTY AND ARKANSAS FOURTH.

THE STATES WHICH COMPRISE THIS REGION ALSO RANK LAST IN ALMOST EVERY EDUCATION AND HEALTH INDICATOR. SINCE 1900, LOUISIANA AND MISSISSIPPI HAVE CONSISTENTLY RANKED LAST AND NEXT TO LAST IN LITERACY, AND ARKANSAS HAS RANKED IN THE BOTTOM TEN. NEARLY ALL OF THE STATES IN THIS REGION ARE THE WORST IN THE NATION IN PUBLIC SCHOOL DROP-OUT RATES, WITH RATES IN EXCESS OF 30%; AND THEY SPEND LESS THAN $2,700 ANNUALLY PER PUPIL IN PUBLIC SCHOOLS--$1200, LESS THAN THE NATIONAL AVERAGE. IN HEALTH, OUR STATES RANK FIRST IN THE NATION IN TEEN PREGNANCY RATES, AND RANKED HIGHEST OF ALL STATES IN INFANT MORTALITY RATES, FAR IN EXCESS OF THE NATIONAL AVERAGE OF 10.6 DEATHS PER 1000 LIVE BIRTHS. I CAN GO ON, BUT I WILL LET YOU READ THESE AND MANY MORE STATISTICS THAT WILL BE PUBLISHED IN OUR FIRST REPORT, TO BE PRESENTED TO CONGRESS IN AUGUST.

HOWEVER, AS YOU CAN SEE FROM THE SAMPLING I'VE JUST PROVIDED, IT IS THIS GRAVE SITUATION IN THE RURAL DELTA THAT

NECESSITATED THE CREATION OF THE DELTA COMMISSION, WHICH, BY THE WAY, IS THE FIRST FEDERAL COMMISSION HEADQUARTERED OUT OF WASHINGTON AND IN THE TARGET AREA.

AT THIS POINT, MR. CHAIRMAN, HAVING ONLY RECENTLY ESTABLISHED A FULLY STAFFED OFFICE IN APRIL, WE ARE IN THE PROCESS OF DOING THE SAME THING YOU ARE DOING; COLLECTING INFORMATION AND PROPOSALS FROM EVERY RESOURCE ON THE PROBLEMS AND MOST IMPORTANTLY, THE SOLUTIONS. AS MANDATED BY LAW, WE ARE NOW HOLDING PUBLIC HEARINGS IN EACH OF THE SEVEN STATES, AND LISTENING TO TESTIMONY FROM A CROSS-SECTION OF THE RURAL COMMUNITY, INCLUDING REPRESENTATIVES OF BUSINESS AND FINANCE, STATE AND LOCAL GOVERNMENTS, AGRICULTURE, INLAND-WATERWAYS,COMMERCE, ACADEMIC INSTITUTIONS, RURAL SCHOOLS AND HOSPITALS, AND MANY OTHERS. WE ARE ALSO WORKING WITH INSTITUTIONS NATION-WIDE IN AN EFFORT TO POOL THE LATEST RESEARCH AND CREATIVE METHODS FOR DEALING WITH THESE PROBLEMS.

AND SO WHILE WE WILL NOT PRESENT THE CONGRESS WITH OUR FINDINGS AND RECOMMENDATIONS UNTIL AUGUST OF THIS YEAR, WITH OUR INTERIM REPORT, AND MAY OF 1990 WITH OUR FINAL REPORT, WE CAN PROVIDE THE SUBCOMMITTEE WITH A FEW OF OUR FINDINGS THUS FAR, SOME PRELIMINARY RECOMMENDATIONS, AND SOME SUGGESTIONS ON WHERE THE SUBCOMMITTEE MIGHT FOCUS ITS EFFORTS AS IT FURTHER EXAMINES RURAL PROBLEMS.

YOU'VE ALREADY HEARD SOME OF OUR FINDINGS, BUT LET ME ADD A FEW MORE. WE HAVE LEARNED THAT HOMELESSNESS IS NOT JUST AN URBAN PROBLEM. TO THE CONTRARY, THE SALVATION ARMY

IN WASHINGTON AND IN MEMPHIS, TENNESSEE, NOW SAY THAT THE GREATEST CONCENTRATION OF HOMELESS FAMILIES--MOSTLY SEASONAL FARM WORKERS, IS IN THE DELTA. THE HOMELESS PROBLEM IS NOW A RURAL PROBLEM TOO.

ON MORE TRADITIONAL RURAL PROBLEMS, WE HAVE FOUND THAT WHAT IS TRUE FOR OTHER RURAL AREAS IS EVEN MORE TRUE FOR THE DELTA. RURAL HOSPITALS ARE CLOSING AT AN EVEN MORE ALARMING RATE IN THE DELTA. WELFARE IS A BIGGER PROBLEM IN THE DELTA, WHERE IN PHILLIPS COUNTY, ARKANSAS FOR EXAMPLE, $20 MILLION, ROUGHLY $2 MILLION A MONTH, IN TRANSFER PAYMENTS ARE EXPENDED EVERY YEAR. SINCE THE RICH DELTA IS ONE OF THE MOST AGRICULTURE-INTENSIVE AREAS OF THE COUNTRY, IT HAS SUFFERED DISPROPORTIONATELY FROM THE RECENT FARM CRISIS. IN HEALTH CARE, ALTHOUGH THE DELTA COUNTIES HAVE AMONG THE HIGHEST PER CAPITA BIRTH RATES, IT HAS THE LEAST NUMBER OF PEDIATRICIANS OR DOCTORS WILLING TO DELIVER BABIES IN THE FACE OF REDUCTIONS OF MEDICARE AND THE COST OF MAL-PRACTICE INSURANCE. ADDITIONALLY, IN EDUCATION WE HAVE THE LOWEST PER CAPITA EXPENDITURE PER PUPIL FOR RURAL SCHOOLS. THE DELTA HAS THE MOST DANGEROUS BRIDGES AND AMONG THE WORST RURAL HIGHWAY SYSTEMS, ALONG WITH OTHER CRITICAL INFRASTRUCTURE PROBLEMS. AND FINALLY, WE HAVE THE LOWEST AMOUNT OF CAPITAL IN OUR BANKS TO FINANCE BUSINESS GROWTH, AND THE LOWEST AMOUNT OF TAXABLE INCOME, RESULTING IN THE LOWEST TAX REVENUES AVAILABLE IN OUR STATE AND LOCAL GOVERNMENTS TO TURN AROUND THIS BLEAK RURAL DEPRESSION.

THE USDA SENATE REPORT TITLED "RURAL ECONOMIC DEVELOPMENT IN THE 1980'S" HAS ATTRACTED SO MUCH ATTENTION ON THE HILL BY PORTRAYING JUST HOW BAD IT IS IN RURAL AREAS.

IN MANY INSTANCES, THE STATISTICS CITED IN THAT REPORT HAVE TO BE DOUBLED OR TRIPLED TO MATCH THE DELTA. WE IN THE DELTA HAVE KNOWN HOW BAD IT IS FOR SOME TIME NOW.

THOSE ARE THE PROBLEMS, BUT WHAT DO WE DO ABOUT THEM? AND HOW DO WE PAY FOR ANY NEW PROGRAMS WHICH RESULT? LET ME REVIEW A FEW OF THE PROPOSALS WE ARE EXAMINING ON THE COMMISSION.

FIRST, WE ARE LOOKING INTO THE PROMISE OF VALUE-ADDED PROCESSING AND ALTERNATIVE AGRICULTURE. CERTAINLY THESE MAY NOT SOUND LIKE NEW IDEAS IN WASHINGTON, D.C., BUT IT IS AN ANSWER FROM WHICH WE BELIEVE THE DELTA WILL BENEFIT WHERE THESE ARE STILL NEW CONCEPTS IN TERMS OF ACTUAL IMPLEMENTATION. BECAUSE OF ITS RICH SOIL, MANY CROPS WHICH ARE GROWN ELSE WHERE COULD BE GROWN CHEAPER AND IN GREATER QUANTITY IN THE DELTA--WHERE TRADITIONAL CASH CROPS ARE GROWN NOW. IF THE DELTA CAN DO IT CHEAPER, IT WILL ATTRACT CANNERIES AND OTHER PROCESSING PLANTS WISHING TO OFFER MORE COMPETITIVE PRICES, AND MAY EVEN STIMULATE HOME-GROWN PROCESSING PLANTS. SUCH PLANTS DO NOT REQUIRE SKILLED LABOR, AND COULD PROVIDE JOBS FOR MANY ON THE WELFARE ROLLS. WE ARE CONDUCTING RESEARCH NOW ON WHICH ALTERNATIVE CROPS THE DELTA COULD BE MOST COMPETITIVE.

SECONDLY, WE ARE EXAMINING WHAT REALISTIC IMPACT A NATIONAL ALTERNATIVE FUELS PROGRAM - USING ETHANOL BLENDED

GASOLINE - COULD HAVE ON THE DELTA. IF SUCH PROPOSALS, LIKE THE ONE PROPOSED RECENTLY BY PRESIDENT BUSH, ARE BROADLY IMPLEMENTED, IT COULD CREATE SUBSTANTIAL NEW WEALTH AMONG THE AGRICULTURAL SECTOR THAT REMAINS WITH CASH CROPS.

THIRDLY, SINCE THE FEDERAL GOVERNMENT IS THE NATION'S LARGEST PURCHASER OF GOODS AND SERVICES, WE THINK A SOLID CASE CAN BE MADE THAT WASHINGTON SHOULD SEND MORE GOVERNMENT PROCUREMENT DOLLARS TO THE DELTA. IT IS INTERESTING TO NOTE THAT TODAY, MORE GOVERNMENT PROCUREMENT CONTRACTS GO TO PUERTO RICO THAN TO THE DELTA. THERE IS NOTHING WRONG WITH HELPING PUERTO RICO, BUT IT IS THE DELTA, IN THE HEART OF THE NATION, THAT IS THE POOREST REGION OF THE UNITED STATES. IF THE U.S. ARMY NEEDS T-SHIRTS, FOR EXAMPLE, WE HAVE SEVERAL MANUFACTURERS IN THE DELTA WHO NEED THE BUSINESS NOW, BEFORE MORE TEXTILE SHOPS GO OUT OF BUSINESS WITHIN OUR REGION. WE FEEL THAT INCREASED GOVERNMENT PROCUREMENT DOLLARS COULD GO A LONG WAY TOWARDS HELPING TO DEVELOP THE DELTA REGION.

WITH RESPECT TO WELFARE, WE ARE LOOKING AT WHERE THE RECENTLY ENACTED WELFARE REFORM COULD BE MORE REALISTICALLY IMPROVED UPON. IF WELFARE RECIPIENTS ARE ALLOWED TO GRADUALLY REPLACE THAT INCOME WITH INDEPENDENT INCOME, FOR EXAMPLE, INSTEAD OF BEING IMMEDIATELY CUT OFF UPON EMPLOYMENT, THIS COULD ALLOW MANY TO STAY ON A JOB LONG ENOUGH TO MAKE ABOVE WHAT THEY WERE RECEIVING IN WELFARE. TODAY, THERE IS NO INCENTIVE TO LEAVE WELFARE TO MAKE LESS INCOME FOR A COUPLE OF MONTHS AT A FACTORY. IF WELFARE COULD

SUPPLEMENT JOB WAGES, KEEPING RECIPIENTS AT THEIR CURRENT LEVEL OF INCOME, AND PROVIDE A BETTER DAY-CARE SERVICE FOR WELFARE MOTHERS, MANY MIGHT BE DROPPED FROM THE WELFARE ROLLS--SAVING BILLIONS OF DOLLARS THAT COULD GO TO EVEN MORE INVESTMENT IN THE REGION.

IN INFRASTRUCTURE, HEALTH CARE, EDUCATION, AND A HOST OF OTHER AREAS, WE ARE DEVELOPING SUCH PROPOSALS FOR CONSIDERATION BY OUR COMMISSION LATER THIS YEAR.

IN TERMS OF FINDING SOURCES, WE ARE LOOKING AT BOTH PUBLIC AND PRIVATE SECTORS. WE ARE EXAMINING HOW THE FEDERAL GOVERNMENT CAN BETTER PRIORITIZE ITS FUNDING, TO SEE IF IT CAN BE SHOWN BY A COST-BENEFIT ANALYSIS HOW THE GOVERNMENT COULD BETTER ALLOCATE CURRENT SPENDING BY CONCENTRATING ON THE RURAL DELTA, AND REDIRECTING FUNDING WITHOUT CREATING MUCH NEW SPENDING. WE BELIEVE THAT IS A VERY REAL POSSIBILITY.

IN THE PRIVATE SECTOR, THE DELTA COMMISSION HAS ASSISTED LOCAL AND STATE BUSINESS LEADERS AND ORGANIZATIONS IN SETTING UP A PRIVATE REGIONAL FOUNDATION TO ATTRACT FUNDING THROUGH CORPORATE AND OTHER CONTRIBUTIONS FOR ECONOMIC DEVELOPMENT. WE ARE WORKING WITH CHURCH LEADERS IN THE REGION TO PULL TOGETHER AND GIVE FINANCIAL SUPPORT, AS WELL AS VOLUNTEER SUPPORT FOR LOCAL REGIONAL PROJECTS, SUCH AS REPAIRING DILAPIDATED HOUSING AND WORKING WITH HOMELESS FAMILIES. WE ARE WORKING WITH ACADEMIC INSTITUTIONS IN THE REGION TO

COME TOGETHER AND FORM A REGIONAL UNIVERSITY CONSORTIUM TO POOL RESEARCH AND ACADEMIC TALENT THAT WILL BE FOCUSED ON THE NEEDS OF THE DELTA.

FINALLY, MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I WOULD JUST LIKE TO SHARE SOMETHING ONE OF YOUR COLLEAGUES SAID ABOUT THE DELTA 130 YEARS AGO. ON THE FLOOR OF THE SENATE, DANIEL WEBSTER OF MASSACHUSETTS OPINED: "ERE LONG THE STRENGTH OF AMERICA WILL BE IN THE VALLEY OF THE MISSISSIPPI." ALTHOUGH WEBSTER'S PROPHECY IS TRUE IN MANY WAYS, IT IS CERTAINLY NOT TRUE ECONOMICALLY. WHEN WE RETURN WITH OUR INTERIM REPORT IN AUGUST AND OUR FINAL REPORT IN MAY, 1990, WE EXPECT TO PRESENT YOU WITH A SOLID SET OF GUIDELINES TO HELP MAKE DANIEL WEBSTER'S PROPHECY RING TRUE. UNTIL THEN, PLEASE FEEL FREE TO CALL ON US IF WE CAN HELP IN ANY WAY, AND THANK YOU FOR ASKING US TO PARTICIPATE IN THE VERY CRITICAL WORK YOUR DISTINGUISHED COMMITTEE IS UNDERTAKING.

MEMBERS OF THE HOUSE AGRICULTURE COMMITTEE SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT:

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Statement of the
American Hospital Association
before the
Subcommittee on Conservation, Credit,
and Rural Development
of the
Committee on Agriculture
of the
U. S. House of Representatives
on
Rural Hospital and Economic Development Issues

June 27, 1989

SUMMARY

As rural hospitals enter the 1990s, they are operating in an environment filled with challenges. Some of these challenges are not new. Rural hospitals have historically faced difficulty in recruiting and retaining of physicians, nurses, and other health care providers. Likewise, rural hospitals have consistently confronted a lower than average utilization of services. Added to these ongoing difficulties, rural institutions have entered a new era of increased mobility of rural populations.

An ongoing variable that rural hospitals and other rural health care providers will continue to face in the 1990s is the impact of a budget driven payment system that will continue to have major impact on their provision of health care services. Changes in regulations for other federal or state programs also will continue to affect rural hospitals. Rural hospitals must contend with barriers to diversification in state licensure, state health planning requirements, or state payment arrangements that make it difficult or impossible, in many instances, to successfully reconfigure the delivery of services.

The 1990s will see a growing integration of health care and community or regional economic planning. As the hospital increases its visibility within the community, its position as a major employer and economic anchor of the community as well as a vital link in the area's continuum of care will create the opportunity for participation in community and areawide economic planning. No rural community will be able to survive during the 1990s without some type of integrated planning efforts with local businesses. Rural communities will need to become increasingly aware of the importance of team play in assuring the viability of all local economic interests.

INTRODUCTION

Mr. Chairman and members of the Subcommittee, I am Sylvia Hoeder, director of the American Hospital Association's Section for Small or Rural Hospitals. On behalf of the American Hospital Association and its nearly 5,500 member hospitals, I appreciate this opportunity to provide information concerning rural health care and the issues facing rural hospitals as they provide health services to their communities.

In this statement, I will present a description of the rural health care environment, discuss key concerns facing rural hospitals, describe responses hospitals are adopting in response to changing rural environments, and finally, suggest a strategy for integrating community health services planning with rural economic development efforts.

OVERVIEW OF THE RURAL HEALTH CARE ENVIRONMENT

Rural America is diverse. Its regions differ in their underlying economic structure, population characteristics and how they are affected by policies.

The U.S. Department of Agriculture (USDA) has identified seven types of rural counties that can be differentiated according to their economic bases.

- Counties dependent on farming represent only 29 percent of all rural counties and 13 percent of rural residents.

- Manufacturing counties (chiefly located in the Southeast) make up 28 percent of the rural counties and contain almost 40 percent of the nation's rural population.

- Mining, oil and energy counties constitute 8 percent of rural counties, including the coal-producing regions of Appalachia and the Midwest and the oil-producing and other mining areas of the West South Central and Mountain regions.

- Counties specializing in government functions make up 13 percent of rural counties, although two-thirds of government counties also fall into at least one other county type. They are scattered throughout the country, with a slight Western orientation, and are fairly urbanized.

- Ten percent of all U.S. counties are designated as persistent poverty areas. Because the USDA designations overlap, 82 percent of these persistent poverty counties also fall into one of the six other groups. They are sparse, highly rural, and located primarily in Southeastern areas including Appalachia, the Ozark Plateau, and the Mississippi Delta.

- Federal lands counties include 1[illegible] percent of the rural total; are characterized by small, remote towns and cities; and are located primarily in the western part of the country.

- Retirement settlement counties, 21 percent of the total, are remote areas principally in California, Florida, Michigan, and the Southwest.

A trend toward rural population growth in the 1970s reversed itself in the 1980s, due primarily to a deterioration in several key rural industries. Farming, manufacturing, mining, oil, and timber have experienced severe economic downturns in the 1980s. However, rural retirement settlement communities showed consistent and sustained population gains during the past decade.

The rural population is becoming increasingly elderly as younger rural residents and their families leave rural areas in search of jobs in urban settings. In 1986, the elderly (those aged 65 and over), accounted for 14 percent of the rural population, compared with 11 percent of the urban population. In addition, the proportion of the elderly increases as the size of the rural community declines.

Table 1

Percent of Elderly in Rural Communities

Population Size of Rural Communities	Percent of Elderly in Rural Communities
10,000 - 50,000	12.9%
2,500 - 10,000	14.7%
1,000 - 2,500	15.4%

Poverty rates also tend to be higher in rural areas, especially in the persistent poverty counties. In 1985, 18.3 percent of the rural population fell below the federal poverty level as compared to 12.7 percent of the urban population. For the rural elderly, the percent who are poor is even greater--17.6 percent of the rural elderly live in poverty as compared to 10.9 percent of the urban elderly.

In addition, most of the rural poor are working poor and families with one or more people employed. Because they are less likely to qualify for Medicaid, more rural people are among the nation's uninsured. It is estimated that about one-third of the nation's uninsured live in rural areas.

Rural health status is also lower. Rural residents, when compared to urban dwellers, have:

- Higher infant and maternal mortality rates;
- Equal or higher prevalence of serious chronic health conditions;
- Lower self-evaluation of their health status; and
- Higher rates of injury.

A PROFILE OF RURAL HOSPITALS

To rural Americans, the local hospital is often much more than a source of health care--it is a mainstay of the community economy. The rural hospital is frequently the largest or second-largest employer in the community. Its presence is critical in attracting physicians, as well as other business and industry.

Size and Distribution

Of the 5,611 registered community hospitals in the United States, 2,599 (46 percent of the total) are rural hospitals. These hospitals are, on the average, substantially smaller than hospitals located in urban areas. More than two-thirds of rural hospitals have fewer than 100 beds. The average rural hospital operates 83 beds.

The distribution of rural hospitals within census regions is shown in the Table 2. In 1987, rural community hospitals accounted for between 40 percent and 75 percent of total U.S. community hospitals in six of the nine U.S. Census Divisions. Rural hospitals are especially concentrated in the West, North Central Region, i.e. Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

Table 2

Concentration of Rural Registered Community

Hospitals within U.S. Census Regions

Census Divisions	Percent of Rural Hospitals
New England	35
Middle Atlantic	17
South Atlantic	43
East North Central	41
East South Central	63
West North Central	75
West South Central	53

Mountain	67
Pacific	23

More than 1,400 of the nation's rural community hospitals are the only hospital located in their county. While residents of the county may choose to receive some hospital care from hospitals located in urban areas or in adjacent counties, the local hospital is the only source of immediate medical care. In those parts of rural America that consist of large, remote areas with low population density, access to care becomes a critical issue. When distance or weather make access to health care difficult, the need for easily accessible local hospitals is apparent.

Facilities, Services, Utilization

In general, the range of services offered by rural hospitals reflects their smaller average size. Rural hospitals are, however, more likely to offer both acute inpatient care and skilled nursing or other forms of inpatient long-term care than their urban counterparts. Nearly 20 percent of rural hospitals operate some skilled nursing beds. Many larger rural hospitals serve as regional referral centers; as such they offer an extensive range of services.

Inpatient admissions at rural hospitals have decreased dramatically. Between 1984 and 1987, the number of admissions to all U.S. registered community hospitals fell by 10.4 percent, while admissions to rural hospitals fell by 20.7 percent. Inpatient occupancy rates of rural hospitals, which have been historically low, fell to 55 percent in 1987. This decrease in inpatient utilization is due to changes in hospital payment systems, increased cost-containment efforts by third-party payers, changing consumer attitudes toward health and hospital care as well as advances in ambulatory care technology and changes in medical practice.

At the same time, rural hospitals increasingly treat less severely ill patients on an outpatient basis. Since 1984, outpatient visits to rural hospitals have increased more than 20 percent, reaching nearly 47 million in 1987. Inpatients tend to be those patients requiring more intensive and costly care and longer stays. Between 1984 and 1987, the average length of stay at rural hospitals rose from 6.8 to 7.3 days, a gain of 7 percent.

Finances and Financial Status

The average budget of an average rural hospital (83 beds) is $7.7 million; this typical rural hospital has 125 full-time equivalent employees, including 59 nurses. The average budget of a rural hospital with fewer than 50 beds is $1.4 million; the typical rural hospital with fewer than 50 beds has 67 full-time equivalent employees. As one of the largest employers and a critical component in attracting other businesses, the local hospital's importance is increasing as other components of the rural economy are experiencing severe economic distress.

The operating margins of rural hospitals have always been lower than urban hospitals. Nonetheless, they have fallen precipitously since 1985. On average, revenues from patient services in U.S. rural community hospitals in 1987 fell short of costs by 3 percent, or a total of $525 million. Nearly three of four rural hospitals had patient revenues that fell short of the costs incurred in caring for patients, and more than two of five rural hospitals had negative total revenue margins.

ISSUES OF CONCERN TO RURAL HOSPITALS

We bring to this hearing expression of concerns shared by small and rural hospitals throughout the country. These concerns have one focus: the need to ensure continued access to quality health care services by residents of rural America.

Rural Hospitals Under Prospective Payment

The first critical concern is the impact of the Medicare prospective payment system (PPS) on the nation's small or rural hospitals. The past five years have seen substantial reductions in Medicare financing. Medicare payments have increased less than one-half as much as hospitals' cost of providing goods and services rural hospitals must provide to the elderly and other Medicare patients. Despite these reductions rural hospitals have struggled to maintain their commitment to deliver high-quality care for the Medicare beneficiaries in their communities. Quality and access have been maintained, but both now are threatened by further cuts.

The operating margins of rural hospitals since the implementation of the Medicare PPS in FY 1984 show the extent to which inadequate and inequitable Medicare payment is causing financial distress to many rural hospitals. For the fourth year of operation under PPS (FY 1987), payments by Medicare to these hospitals fell far short of the cost of caring for Medicare beneficiaries. In FY 1987, rural hospitals, on the average, lost money in treating Medicare patients, experiencing a PPS margin of negative 2.5 percent. Nearly 56 percent of rural hospitals experienced losses, and more than 33 percent of rural hospitals operated with a PPS margin of negative 10 percent or more. Very small rural hospitals incurred larger deficits than larger rural hospitals. The average fourth year PPS margin for rural hospitals operating fewer than 50 beds was negative 5 percent. Nearly 60 percent of these hospitals incurred deficits in PPS year four, and nearly 20 percent of these hospitals experienced a deficit of more than 10 percent. This combined with the high percentage of elderly who use rural hospitals, is a cause of grave and continuing concern.

Looking ahead to the status of rural hospitals in FY 1990, the projected deficit of rural hospitals is expected to exceed 9 percent. Nearly two-thirds of rural hospitals will lose money caring for Medicare beneficiaries, and almost 45 percent of rural hospitals are expected to experience a PPS-related deficit of 10 percent or more. If inadequate and inequitable Medicare payment continues, rural hospitals may be forced to curtail services needed by Medicare beneficiaries.

These facts and figures raise two issues. The first concerns the extent to which Medicare is adding to the fiscal pressures on already-strained hospitals. The second concerns changes in the financing and delivery system that may be needed to ensure continued access to appropriate high-quality medical care for rural Americans, particularly the rural elderly. The American Hospital Association believes that significant reforms are needed in the Medicare PPS to ensure that the prices set are both adequate and equitable. AHA recommends a series of reforms to achieve these goals.

Adequacy of Payment

Adequacy would be achieved through assuring that payments bear a reasonable relationship to the cost of services used by Medicare patients. Prices would be recalculated every four years based on cost, and prices would be updated by the percentage increase in the price of goods and services hospitals must purchase to provide care.

Equity Improvements

Equity would be achieved through the establishment of a single "base" rate adjusted for patient characteristics and differences between hospital markets in prevailing resources, prices and variations in use of resources that are beyond the control of hospital management. To improve the sensitivity of the prospective payment system to differences in patient characteristics, the DRG system would be refined, focusing on "problem" DRGs. The inadequate current adjustment for resource price variation would be replaced by a more comprehensive index reflecting variation in the prices paid by hospitals for all types of resources, both labor and non-labor. An exceptions process should be developed to deal with the unique circumstances of individual hospitals that may not fit the general rule.

To address the problems of small hospitals experiencing sharp reductions in utilization and operating margins, these hospitals should be allowed to "opt-out" of the current prospective payment system. For those hospitals operating fewer than 50 Medicare-certified acute care beds, Medicare reimbursement should be based on traditional cost-based principles.

The role of hospitals, especially rural hospitals, in meeting the needs of patients for both acute inpatient care and skilled nursing care of limited duration should be recognized by allowing payment for "transitional care" provided in hospital settings. Payment for sub-acute care would both improve the quality of care available to beneficiaries and enable hospitals to make better use of their facilities.

Existing rural referral centers should continue to receive the urban payment. Rural referral centers treat more severely ill patients and receive cases that tend to be more complex than the average rural hospital. In addition, they offer many specialized, high-technology services and procedures that typically are not available in the average rural hospital.

Outpatient Payment

Another immediate and serious concern is the impact of proposed changes in Medicare outpatient payment on the financial viability of rural hospitals. In their efforts to remain viable, many rural hospitals have diversified their services. One of the most successful strategies has involved the shift to outpatient surgical procedures and treatment. Changes mandated in the Omnibus Budget Reconciliation Acts (OBRA) of 1986 and 1987 replace reimbursement on a reasonable cost basis for certain outpatient services with provisions for a new payment system based on rates charged by freestanding ambulatory surgical centers. In many rural areas, particularly those served by hospitals which qualify as sole community providers, freestanding ambulatory surgical centers do not exist.

In addition, the OBRA provisions require the Secretary of HHS to develop, by 1991, designs and models for a prospective payment system for other hospital outpatient services. At a time when most rural hospitals credit their survival to their ability to appropriately shift procedures to an outpatient setting, the threat of inadequate payment in this area will destroy any hope of maintaining financial viability. It is also significant that changes in outpatient payment have the potential to jeopardize access to this critical area of service.

Access to Care

The second issue of critical concern is access to care, not, merely to acute inpatient hospital care, but to the entire scope of health care services-preventative, outpatient, rehabilitation or recuperative--that rural hospitals increasingly provide. The problem of access to care is greatest for the elderly, who are also the largest users of rural health care services. Although younger rural residents may choose to travel some distance for health care services, and have the physical and financial resources to do so, the rural elderly often lack such options. Their point of entry to health care services is the family physician and the local hospital, where they can be cared for with minimum disruption to their home and family environment.

With shifts to outpatient care, numbers of hospital beds are becoming an increasingly artificial measure of access to health care services. Some futurists foresee a "bedless" hospital. The critical issue is whether health care services are available and accessible to a given community, a question that needs to be answered on behalf of rural Americans. It is also an issue that is integrally related to federal health care reimbursement policies that put small hospitals at maximum risk without regard to the impact of their closure on those they serve.

Therefore, it is necessary to consider the implications of hospital closure on access to health care services for rural Americans. Since 1980, 206 rural community hospitals have closed, with 43 rural community hospitals closing in 1988. In 1983, rural hospitals represented 28 percent of all community hospital closures. The proportion of rural hospitals closing increased to 40 percent in 1984, to 43 percent in 1985, and in 1988 rural hospital closures represented 53 percent of all community hospital closures.

The loss of local health care services is particularly hard on the rural elderly who often are dependent on others for transportation, and when hospitalized, often require longer recuperative periods before discharge. In many rural areas, lack of access to local health care services, distance, and weather may necessitate long periods of separation for elderly patients and their family and friends, resulting in loneliness and mental stress that may actually inhibit the healing process.

A more visible and immediate impact of hospital closure is the loss of jobs and a decrease of local economic activity. Because rural hospitals are important parts of the economic system in rural communities, a hospital closure can result in population loss, revenue loss, and a decrease in overall community income. A 1981 study of rural hospitals in eight Western States, partly funded by the National Center for Health Services Research, indicated that total community income stimulated directly by hospital spending averaged around $700,000 and could reach as high as $1 million nationally. Average annual salary income generated by rural hospitals in the study sample was about $600,000. All in all, hospitals contribute more in salaries to rural communities than many other sectors of the local economy.

Although rural health care providers cannot be expected to provide the same array of complex services as their urban counterparts, it is imperative that they be allowed to continue to do what they do best--work in conjunction with other local providers to create a continuum of cost-effective, quality services in a setting which maximizes access for rural Americans, particularly in those areas where distance or weather create added difficulties in traveling elsewhere for care.

Indigent Care

As a result of economic recessions in rural agricultural, timber, and mining industries, many rural Americans face difficulties in paying for health care services. Of the estimated 37 million Americans who currently lack any form of public or private health insurance coverage, 10.6 million live in rural America. Although Medicaid is often considered the principal means of financing health care for the indigent, it now covers less than 40 percent of the poor. In addition, rural residents are often less likely to qualify for Medicaid because they are self-employed or because the Medicaid eligibility criteria discriminates against two-parent families. As a result, many rural hospitals have experienced sharp increases in uncompensated care. For example, a 30-bed rural Mississippi hospital saw a 200-percent increase in unsponsored care costs between 1981 and 1986. At the same time tax appropriations from the county decreased due to a reduction in federal revenue sharing funds.

Health Manpower Shortages:

A fourth area of concern involves the continuing maldistribution of physicians and the growing shortages of allied health professionals in rural areas. Studies indicate that even though a physician over supply is predicted, serious problems of geographic maldistribution still occur. Physicians tend to choose practice locations in urban or highly populated rural areas and to cluster in locations with access to sophisticated technology and peer support. Those who do choose to practice in rural areas seek hospitals that are recognized for the quality of services they provide.

Information from the American Academy of Family Physicians (AAFP) on the 1989 - 1990 national family practice residency match provides an example of recent trends. In past years, the medical students who matched through National Residency Match Program (NRMP), that matches applicants for placement in this country's approximately 385 family practice residency programs, resulted in an 84 percent placement rate during the first selection round which takes place in March, with a 97.5 percent match after the second round which is completed by July. In 1988, the first selection round resulted in a 73 percent match, with only 91 percent of family practice residency slots filled after the second round. This year, the first selection round has resulted in a 71 percent placement rate. These data indicate that fewer physicians are choosing family practice than in past years. Because 43 percent of primary care visits are provided by family physicians and general practitioners, the declining number of graduates of family practice residencies will be in greater demand, resulting in more intense competition to recruit physicians in rural areas.

There are other factors that act as disincentives for physicians to practice in rural areas. Rural physicians receive less Medicare payment than their urban counterparts. At a time when a physician begins practice with an average educational debt and practice start-up costs totaling more than $200,000, it may take a family practitioner over four years to recoup these costs. Incentives to practice in locations with maximum financial return are strong. Membership surveys by the AAFP show that the number of residency graduates expressing interest in practicing in towns with populations of fewer than 25,000 has fallen from 57 percent to 41 percent, a drop of 16 percent in the past five years. Incentives to practice in rural communities must be developed.

The shortage of allied health professionals and nurses is an ongoing concern for rural hospitals. At the same time that these hospitals seek to remain financially viable by diversifying the services they offer, the personnel required to staff new and existing services are in increasingly short supply. In a May 1989 environmental assessment of the governing council of the Section for Small or Rural Hospitals, governing council members indicated serious problems in attracting all types of allied health personnel to their hospitals. They also indicated that they have to offer salaries that are higher than neighboring urban hospitals to recruit these personnel.

RURAL HOSPITAL RESPONSES

Rural hospitals have responded to these challenges in a variety of ways. Rural hospitals are looking toward a revised, broader mission that no longer centers on acute inpatient care. The rural hospital is seen as the umbrella for a growing number of preventive, restorative, rehabilitation, and aging services, many of which will be provided outside the hospital. Rural hospitals are also becoming more involved in the integration of the limited resources available at the local level.

Faced with declining demand for inpatient acute care and declining inpatient revenues, some rural hospitals have successfully introduced new services to better serve community residents. Diversification strategies include the development of organized outpatient departments. Significantly, the fastest growth in outpatient visits has been among smaller hospitals and facilities in economically depressed and rural areas.

Other diversification efforts include home health care, alcoholism and chemical dependency programs, and rehabilitation and health promotion programs, as well as long-term care initiatives such as swing beds, transitional care, hospice care services, and senior living centers. For example, in rural New York State, a 49-bed hospital is reconfiguring its services to provide drug rehabilitation services for the surrounding area; while in rural Wisconsin, a 49-bed hospital has successfully developed a rural hospice/home care program, and a 60-bed hospital has integrated skilled nursing services and an independent living center for the elderly on the hospital campus.

Another response that many hospitals have used to reposition themselves during the 1980s is some type of affiliation or networking arrangement. These affiliations or networks can be either horizontal or vertical. Many rural hospitals have approached larger regional medical centers to establish some type of cooperative arrangement involving sharing of services or staff, particularly specialists and other physicians, or the establishment of outreach programs. An example is given by the Virginia Mason Consortium in Washington State which is composed of a large tertiary hospital in Seattle and 10 small area rural hospitals that share education and training resources. Other hospitals have sought to network more closely with other providers within their own communities expanding, and in some cases consolidating, the range of services available locally.

Other hospitals have been forced to respond in a manner which has not been so positive. As stated previously, in 1988, 81 U.S. community hospitals closed, with 43 community hospital closures in rural America. According to a recent study included in Rural Hospital Closure: Management and Community Implications, 14 of 29 hospitals that closed in 1987 were identified as having actually converted to some other type of service. Of these, five converted to provide only long-term care. Five became ambulatory care clinics, three converted to a combination of long-term care and ambulatory care, and one became a long-term, ambulatory surgery and chemical dependency center.

RURAL HEALTH SERVICES PLANNING AND COMMUNITY DEVELOPMENT

Rural hospitals are also finding themselves in greater communication with local businesses, which are facing many of the same economic problems brought about by declines in local economies. Many are working jointly to maintain scarce local resources, improve preventive health education, and institute employee health and safety programs. There is a growing realization of mutual responsibility for the economic well-being of the community, and an increase in efforts, such as the excellent community service project on health resources planning sponsored by the Pioneer Hi-Bred Seed Company in 1987, to involve community members in determining the future configuration of area health care services. Another example of working with local businesses is given by a 53-bed hospital in rural Idaho which has helped to provide health insurance to small employers in hopes of reducing the number of uninsured residents.

As I visit this nation's small or rural hospitals, it is becoming more apparent that rural health care is integrally linked with the overall economic health of the community, and that rural hospital administrators and other community leaders are beginning to consider joint planning efforts which seek to assess and identify needs for health services and determine the best possible use of scarce health care resources. To this end, the AHA's Section for Small or Rural Hospitals is just completing publication of a community-oriented strategic planning workbook. This workbook is part of a series of monographs on rural hospital issues which is being funded by the W.K. Kellogg Foundation of Battle Creek, Michigan.

When we started to consider a strategic planning workbook, it was the advice of our advisory task force (made up of small or rural health care administrators and others interested in rural health care), that rural health care services be considered as part of the entire rural support structure. Not only are health care services essential to community residents in rural areas; they are also a major factor in the continuing economic health of their community and sometimes of the entire region.

Rural health care providers increasingly sense the importance of integrated community planning. This can only be seen as a positive step. The rural hospital is no longer a building, an institution where people go only for acute inpatient care. It has become much more -- a health resource center -- in many rural communities. This new hospital role carries with it additional responsibility. The hospital has the responsibility to work in conjunction with other local healthcare providers to avoid duplication of scarce resources and to assure that services which truly reflect community need continue to be provided at a cost effective manner.

Hospitals also need to be sensitive to the constraints faced by the entire community. The same types of trade and economic patterns which impact the hospital are in many cases impacting other local businesses. Unified efforts are needed to identify area strengths and weaknesses and to target resources for their best possible use. Hospitals and other community leaders are pulling together in order to maximize their strengths.

There is a also a growing realization that without unified efforts and teamwork, the community may not survive. The loss of a hospital creates an undeniable domino effect. Without a hospital in the community, local physicians often leave. Busineses such as pharmacies, suppliers, or others which employ family members of former hospital employees will also be affected, as will the local school system.

The strategic planning workbook which we are producing will be distributed free-of-charge to all AHA members small or rural hospitals, as well as 1,500 other rural health care providers. It is our hope that this workbook will assist rural communities in several ways. First of all, it provides an immediate focus and process for community health services planning, both at the institutional and the community level. We recommend that any rural health care institution undertaking a institutional planning effort organize and maintain a community health services advisory group. This advisory group can assist the local institution by providing perspective and input to institutional planning. At the same time, it can educate the community as to the availability of local resources and assist in integrating rural health care providers.

This workbook also has broader applications. Once a community has gone through the process for health services planning, it will have prepared itself to use the same generic planning process for assessing other community services, and ultimately, to plan for area-wide community economic development. We feel that this is a long-lasting benefit, and it is our hope that this workbook will provide a usable tool which will assist rural communities not merely in health services planning but in preparing themselves for future economic health and viability.

CONCLUSION

The deteriorating financial condition of many of the nation's rural hospitals combined with a declining inpatient utilization, suggests that changes are needed in the way in which rural health care is organized, delivered, and financed. Changes in Medicare payment policies alone are an incomplete response to the challenge of changing patterns of delivery and utilization.

The Rural Health Care Transition Grant Program approved by Congress to finance demonstration projects on facility conversion and restructuring is another important step in exploring the reconfiguration of long-term reform of delivery systems. Additional efforts are needed, involving both state and local government and private initiative. State and local governments can facilitate this restructuring through regulatory relief and financial and political support. Private initiative is needed to create alliances and affiliations among rural hospitals and between rural hospitals and regional referral centers located in both rural and urban areas. The challenge is to create a hospital and health care system that is responsive to both changing patterns in the delivery of care and local community needs and capabilities.

The American Hospital Association will continue to assist rural hospitals and rural communities maintain necessary health services. It is our hope that tools such as our strategic planning workbook and an accompanying monograph on community and institutional organizing will assist rural communities in assessing their current situation, mobilizing health care resources, and beginning to plan for the broader economic development of their area.

Thank you for giving me this opportunity to address issues concerning rural hospitals. AHA looks forward to working with Congress and with the Administration to develop initiatives to preserve access to quality health services in rural America.

RURAL ECONOMIC DEVELOPMENT

THURSDAY, JUNE 29, 1989

House of Representatives,
Subcommittee on Conservation,
Credit, and Rural Development,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 10:10 a.m., in room 1302, Longworth House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Tallon, Penny, Nagle, Harris, Espy, Long, Coleman, Grandy, and Holloway.

Staff present: Bert R. Peña, staff director; Glenda L. Temple, clerk; James R. Lyons, James A. Davis, and David Ebersole.

OPENING STATEMENT OF HON. GLENN ENGLISH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. English. The hearing will come to order.

Today marks the final day of public hearings in Washington, DC, on rural development, which the subcommittee has been conducting during the month of June. As the hearings draw to a conclusion, we have to assess where we are and where we must go. The two are complementary. We know where we are in rural America. There is a massive outmigration from rural areas to cities, opportunities across the board are limited, education, health care, employment prospects, and career possibilities for a younger generation and a limited tax base renders many fundamental services unattainable for the average rural citizen.

I announced at the outset of these hearings that I intended to conduct a broadly based hearing process. I think the subcommittee has achieved that objective. During that last 4-week period, we have heard from 50 organizations and individuals having the common goal of an economically vibrant rural America. Farm organizations, the banking community, Farm Credit System, telecommunications, education, health care, utilities, cooperatives, and natural resource management organizations have all testified before us and provided insight and comments about rural needs.

But even at this juncture, with the considerable input from these different interests, there still is one question which we, as a subcommittee, must answer. With limited Federal resources, how do we maximize our efforts for the betterment of rural communities?

So with that question in mind, we will take the hearing process to the local areas where our decisions here in Washington are most keenly felt. The subcommittee will be conducting field hearings during the month of August in each of the regions of the United States. Our expressed purpose will be to determine which programs are most efficient, which ones need refocusing, and how we as a subcommittee might prioritize the items on our rural development agenda.

But before we take our hearings to the field, we will hear from another distinguished panel of professionals who share our common goal and it gives me great pleasure to welcome our opening witness, the ranking minority member of this subcommittee, Tom Coleman. Tom certainly has had a longstanding commitment to the improvement of rural conditions in rural America and he brings considerable expertise to our legislative areas.

Let me also say that without question, Tom Coleman is one of this Nation's leaders as far as rural development is concerned. He has an outstanding piece of legislation that he has authored and certainly we are looking forward to his testimony this morning.

Tom, glad to have you down on the other side of the table this morning.

STATEMENT OF HON. E. THOMAS COLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. COLEMAN. Mr. Chairman, thank you. I am happy to have this opportunity to talk about rural development.

I have tried to restrain myself through the weeks that we have had our hearings, not to make too many speeches or opening statements. I thought it would be appropriate, perhaps, at this last hearing in Washington that we are going to have on the general subject, to make a statement and provide something for the record.

First of all, I want to commend you as our chairman, and I want to say that our relationship has been a very good one. We have jointly perceived rural development as an extremely important subject matter for this subcommittee to deal with, and we are, in fact, ending a series of hearings here in Washington which are probably the most exhaustive on the subject that I can remember. That takes in 11 or 12 years. I think that is a very good thing to have been able to include on our subcommittee's agenda.

As we complete our review and start looking at specific legislation, I would want the subcommittee to look at the fact that we need to have some sort of blueprint which is going to help rural America, not just in one segment, but in all segments. As a result, I have put together a package called the Rural Development Initiative 1989, which is being cosponsored by, I think, 20 of my colleagues of both parties.

Our attempt is to provide that type of blueprint and strategy for the future. As you recall, 3 years ago, I introduced a similar piece of legislation, a package, again. I believe we had some 40 to 50 members as cosponsors, again almost equally divided between the two parties.

Building upon that, I might just say for the record that we have been successful in enacting some of the rural development initiatives that we initially proposed. For example, the educational feature, we call it ACCESS. It provides an opportunity for rural youngsters to have the best possible input in their college-making decision years—where they go to college, how they get into college or vocational school, what they may want to do in their post-secondary experience. We have set that up through a U.S. Department of Education grant. It is a pilot project. It is in my district, and it is in its second year.

We hope to be able to take the experience from that and replicate it throughout the country. In fact, we have this on the trade bill and reauthorized it for purposes of going nationwide.

Our initial proposal had agricultural action centers, some place for a farm family to come for a variety of services. That has been adopted in legislation in the past, and these action centers are working in many States. They are providing that type of one-stop service, where a family who is going through economic problems, can go for job assistance. They can receive assistance on how to make ends meet as they seek jobs or continue to farm on a reduced basis.

One of the things we found is that we need to diversify our economy in rural areas, and one of our proposals that has been signed into law requires the Federal Government to provide some assistance in this fashion. When the Government procures billions of dollars of goods and services, I think the bureaucracy should be sensitive to the fact that we ought to have some rural vendors out there who ought to be used.

We are not earmarking; we are not setting aside; we are just trying to sensitize the Government to this great opportunity out there to buy from rural vendors who, in turn, will help rural communities and create jobs.

Two years ago, I asked the General Accounting Office, as I got more and more involved in this issue, to find out exactly where the Federal money is being spent in this country vis-a-vis urban-rural breakdowns. What are the rural programs? Who are they serving? How many dollars are going out to rural areas? We don't think there is great coordination among Federal agencies and I think we have heard that from some of the testimony these last few weeks.

In any event, the General Accounting Office came back with a study which is far from conclusive, and I will get into why, but it has found that Federal programs and Federal spending is really unfocused in rural areas. That calls for a strengthened agency to maintain the focus.

One of our proposals, and a cornerstone of it, is to try to reorganize the Federal Government and bring in a lead agency in the USDA to focus on what is necessary for this delivery system to work and to be the advocate for rural America within the Federal Government.

The GAO, for example, identifies some 88 different rural programs administered by 13 different agencies. I am sure there are even more they couldn't discover, because another thing we found was a lack of information. There is little data available for even the Government to know itself what it is doing. There is no single source right now for getting this information.

So building upon that, I think we need to start the structure of a rural development administration, bring in some of these programs, have it focused. We could save money in the process simply by having the left hand and the right hand know what the other is doing.

We have all asked where do we get the money? We do have some money in the budget, but in order for rural America to really be revitalized by any program that we might pass, we are going to have to have some leveraging of moneys. This time, instead of going to direct grants, which we knew would be less than adequate for funding, we have established a Loan Guarantee Program that can help rebuild the infrastructure, including transportation systems, utilities, waste and water purification systems, and other economic development activities, I might say, including the development of rural community leadership, which is very important, especially with the younger generation. Private rural enterprises would be recipients, also, of these types of guaranteed loans.

For us to be able to have a future that we feel confident and secure about in rural areas, I think we are going to have to use high technology. I am proposing the establishment of rural technology and training centers funded by direct grants from the Government. I envision nonprofit organizations and land-grant institutions playing a major role. They can provide applied technology to a community or a region of the country that could, in fact, utilize technology, and make real jobs available to rural people. It is wise for the Federal Government to invest that type of seed money in rural technology centers.

It has been suggested that the rural electric co-ops can play a role, and I think that they can because they are, in fact, the intelligencia of many small communities. They are the ones with the high technology, the satellite dishes and the computers. They have the expertise. Right now, they are utilizing that in a very positive fashion, contributing to the success of school programs with satellite technology. I think that if we free up some of their equity, moneys that they have available, and allow them to utilize it for new business and development purposes that that would be extremely helpful as well.

As I say, we need a data base for the collection and dissemination of rural development information, and I propose establishing that data base.

Continuing the encouragement of procurement by the Federal Government in rural areas by having targets, not set-asides or demands, but targets for rural small businesses to participate in Federal procurement policy.

Then, I would see that we would have to reverse the decision that President Carter invoked by an executive order in 1978. He wanted to provide jobs in central urban cores, including allowing the Federal Government to locate facilities there, even USDA facilities. I would like to see us reverse that and give these opportunities to rural areas. We need those kinds of jobs and facility locations in rural areas, at least for the USDA, and so I would overturn President Carter's executive order by a sense-of-the-Congress resolution. It just makes sense.

Finally, I believe that the drought that has impacted much of the Nation has created the unexpected consequence that is not just farm-related, but community-related. Towns and communities are not going to be able to attract new businesses, they are not going to be able to retain current ones if their water supplies are nonexistent or in a very jeopardized situation. So I am proposing that we have an additional $75 million for emergency water facility grants by the Farmers Home Administration. This was an amendment which I did get on the drought bill that passed recently, but it is part of our rural development initiative 1989.

Finally, recognizing that our jurisdiction here is limited, one area that we found that we could do something about is the interest rates that Farmers Home charges on hospital and health care-related facilities loans and try to reduce those. We have heard from other witnesses about this problem.

This is an area where rural America is really taking a hard hit and we need to do whatever we can within the jurisdiction of our committee to try to reduce those pressures.

I see the timing on a rural development proposal as perhaps coming on a little faster than we might have anticipated. We can either have a separate bill or we can have a rural development title of the farm bill next year. I think we need to work on and assume that we might want to get something passed earlier than later, recognizing that our plate is becoming full on our subcommittee. But at the same time, we must recognize that this is a very high-priority issue and that we do not want to play defense in whatever the Senate may come up with. We need to put our stamp and our determination on a bill and be part of the process.

So, again, I just want to put my thoughts on the record, present my rural development initiative 1989, which I believe is nontraditional in nature, broad-based, and attempts to take a lot of different avenues to pursue rural development in this country. So I thank you and members of our subcommittee for hearing me out this morning.

[The prepared statement of Mr. Coleman appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Tom. I appreciate it. As I mentioned, you certainly are recognized for your expertise in this field and there is no question you are going to have a great deal of influence, not only on me, but also on the other members of this subcommittee who recognize that expertise. We appreciate your testimony and appreciate your making it a part of the record.

Mr. COLEMAN. Thank you, and I am enjoying working with you Mr. Chairman and our subcommittee on formulating this important piece of legislation.

Mr. ENGLISH. I have no questions.

Mr. Harris.

Mr. HARRIS. No questions, Mr. Chairman.

Mr. ENGLISH. Mr. Tallon.

Mr. TALLON. Mr. Chairman, I am sorry I am a little late getting here this morning. I don't have a question of Mr. Coleman. I would like to say something about two of the people who are testifying here this morning that are from the State of South Carolina, if I could take 1 minute of your time.

Mr. ENGLISH. Certainly.

Mr. TALLON. Thank you, Mr. Chairman. I am delighted to welcome today two South Carolinians who epitomize what we are hoping to achieve through rural development. The work of Rudy

Groomes, and Lawrence Gressette, in strengthening rural economies through education and capital investment is a fine example of just what we can do if we put our minds and resources to it.

Lawrence Gressette is president of SCANA Corp. and has put his and SCANA's shoulder to the wheel and put a number of South Carolina's ailing rural communities on the road to recovery.

Mr. Chairman, for a small, struggling community, $50,000 for a rural water system can mean the difference between life and death. I will put it simply, Mr. Chairman, SCANA is to be commended and copied.

Rudy Groomes is president of Orangeburg-Calhoun Technical College and has had an enormous impact on the young people of one of South Carolina's neediest rural areas. Rudy illustrates better than almost anyone why rural economic development works best from the ground up. He has done, on the grassroots level, in 1 year what it would have taken Washington 10 and he has done it equipped only with an enormous amount of commitment, energy, and willingness to work together and to cooperate and I just want to welcome these two people from my State and thank them for their participation and testimony here this morning.

Thank you, Mr. Chairman.

Mr. **English**. Thank you very much, Mr. Tallon. We will be looking forward to their testimony.

Mr. Grandy.

Mr. **Grandy**. Thank you, Mr. Chairman. I apologize to you and to Mr. Coleman for being a little tardy myself.

Tom, as you know, I am one of the early cosponsors of this initiative and you have spoken to constituents of mine and played to rave reviews in terms of your rural development initiative.

One of the adjuncts of this, which we have not talked about, but I am just a little curious about as we try and move the focus of this, is the whole concept of doing at the White House what small business did a few years ago. The White House Conference on Small Business was very successful in focusing issues, which we are now discussing legislatively.

What do you think of a White House Conference on Rural Development? Is that something that you think has any play at all?

Mr. **Coleman**. I haven't really considered it, Fred, but I would say that you touched on something that ought to be stated on the record and that is that the atmosphere and the environment in which we are legislating this year is much more positive, I think, because of the White House's attitude.

As we know, it was much more difficult previously to get their attention and interest directed on rural development. Now the President has appointed his own interagency taskforce with a number of agencies. It is an interagency approach that is necessary, and he has done this on his own without having to take any prompting or lead from those of us here in the Congress.

So I see, in a sense, a different attitude and one in which they are trying to bring together the resources, at least deliver the resources in a bit more efficient and fair manner. As far as a White House Conference, I have not really considered it. It is a significant idea and one which I think we might want to pursue with the administration to see what their attitude is as well.

Mr. **Grandy**. I guess my point is trying to get the best coordination of all the proposals that will be put forward on rural development. Of course, we do have a colleague down there, Cooper Evans, who I believe is their rural development point man, but I know our colleague, Virginia Smith, has introduced, I believe, legislation to create a White House Conference on Rural Development and did not know whether or not you had given your support to that or not.

That is really all I had, Mr. Chairman. Thank you.

Mr. **English**. Mr. Nagle.

Mr. **Nagle**. Let me just say that I appreciate very much your proposals and I think that it is a significant and major contribution, but there is something that is frankly troubling me that I want to afford you an opportunity to comment on if you choose to do so.

As one of our most distinguished members and as the ranking member of this subcommittee and of the full Agriculture Committee, earlier this week, the Secretary of Agriculture took off after American farmers and Members of Congress. He said, and I quote from an AP wire service story:

> Secretary Clayton Yeutter said the Federal deficit would double or triple if all requests for farm aid were honored. Yeutter, speaking at a meeting of the American Seed Trade Association, said 75 percent of his mail comes from people asking for more government assistance of some kind. Most of these letters are coming from Members of Congress, of course, reflecting concerns of their constituents. If the government were to honor all those pleas for additional funding, that $150 billion deficit we have now would probably double or triple, just based on agriculture requests alone, aside from what the rest of the economy is asking for.

The Secretary went on in separate stories in the Reuter News Service before the same organization to criticize American farmers as becoming addicted to Government payments, saying that there would be a revolt against the American farmer because of the unreasonable subsidies that are being given them.

I just wondered, as a member of our committee and someone who has worked hard and effectively in passing the 1985 Farm Act, whether you, as a distinguished colleague of mine, share the Secretary's views or do you wish to disassociate yourself from them?

Mr. **Coleman**. I would like to have you ask the Secretary to comment on his own comments. I would not want to comment on a press report.

Mr. **Tallon**. Thank you.

Mr. **English**. Thank you very much, Mr. Coleman, appreciate it.

Our next witness is Dr. T. Reginald Harris, with the American Medical Association here in Washington, DC. Dr. Harris, we want to welcome you today. We will be happy to receive your testimony.

Also, let me say to all of our witnesses today, if you would care to summarize your testimony, without objection, your complete written testimony will be made a part of the record.

Dr. Harris, would you care to introduce the gentleman accompanying you.

STATEMENT OF T. REGINALD HARRIS, M.D., MEMBER, COUNCIL ON MEDICAL SERVICE, AMERICAN MEDICAL ASSOCIATION, ACCOMPANIED BY DAVID L. HEIDORN, J.D., DEPARTMENT OF FEDERAL LEGISLATION

Dr. **Harris.** Yes, thank you, Mr. Chairman.

I am Reginald Harris and I practice internal medicine in Shelby, NC. For the record, I would like to tell Mr. Tallon I am 10 miles from South Carolina and also see a lot of South Carolinians in my practice.

To my right is David L. Heidorn, J.D., of the AMA's department of Federal legislation, who was kind enough to accompany me to the Hill today.

I am a member of the America Medical Association's primary socioeconomic policy council, which deals with rural health problems. In that capacity, I take pleasure in summarizing my remarks to you this morning.

We do appreciate this opportunity to share with you our ideas about improving access to rural health care. As members of this subcommittee are aware, there are a variety of difficulties that inhibit the delivery of care to rural areas: the absence of adequate facilities, health manpower and transportation, a lack of coordination between available resources, limited financial access for many of our patients and citizens and inadequate provider reimbursement.

These are all serious problems. The AMA believes that access to care in rural areas must be improved, but we also recognize that the approaches to improvement are not easy or inexpensive.

As a first step, rural Americans' financial ability to obtain health services must be improved. Many in rural areas are dependent on State Medicaid programs for health care services. Unfortunately, unrealistic low reimbursement levels, widely varying benefit levels and stringent eligibility requirements make access to Medicaid difficult.

The time has come, we believe, to restructure the Medicaid Program so that uniform adequate benefits are provided to all States at adequate payment levels and to all persons below 100 percent of the poverty level.

Major increases in the number of eligible individuals and in program costs will occur, but society already bears a large portion of these costs by cost-shifting and other mechanisms.

The question, then, is not whether, but how such costs can be met in a way that best preserves the health of the needy. We believe a Medicaid Program that takes care of all of the poor is preferable to one that takes care of only 40 percent of the poor.

State risk pools also need to be established so that reasonably priced health insurance can be made available to needy individuals who have incomes above the poverty level, with publicly funded vouchers on a sliding scale to help pay for the pool coverage premiums for those individuals who need additional help.

To spread cost evenly for such pools, all health care underwriting entities, including self-insured corporations, must be required to participate in the risk pools.

As the third piece in expanding health care coverage, the AMA supports a concept of a phased-in requirement that employers provide health insurance coverage for their full-time employees. Limited initially to larger employers, coverage would be expanded over several years with diminishing tax credits or other incentives to avoid adverse effects on employers.

In addition to improving financial accessibility to care in the three ways I have outlined, there are other steps that can be taken to improve the supply and distribution of rural health manpower. The AMA supports a national health service corps. We also support forgiveness of educational loans and other financial inducements for health care providers who practice in shortage areas.

Over the longer term, health professional schools should increase emphasis on attracting students motivated to care for underserved populations and should provide more educational exposure to rural practices.

The AMA is also deeply concerned about inadequate Medicare levels of payment to rural physicians and hospitals, particularly given the higher proportion of Medicare beneficiaries in rural areas. Substantial variations in Medicare prevailing charge levels exist between Medicare charge localities, even after adjusting for practice cost differences.

Such variations jeopardize access to care in areas where prevailing charges are low. This is especially true in rural areas. These inadequate reimbursement levels result from a series of constraints beginning with the application of the Medicare Economic Index applied to 1971 charges. These restraints have not allowed rural physicians reimbursement and fees to rise with the relative changes in the cost of providing care.

As the most equitable approach to establishing physician payment levels, Medicare's current method of physician payment should be replaced with an indemnity fee schedule with indemnity amounts based on a relative value scale that reflects resource costs. The common abbreviation is an RBRVS.

The AMA has taken part in a congressionally mandated study to develop an RBRVS. Data currently available from the study, when sufficiently expanded, corrected, and refined, could provide an acceptable basis for a Medicare indemnity payment system.

However, implementation of this RBRVS system may be some time away. As an interim approach to redress the inequities in rural physician payment, we support the establishment of a floor on Medicare prevailing charges for all services at 80 percent of the national average prevailing charge for these services. The establishment of this 80-percent floor will permit Medicare-allowed charges to increase immediately in rural areas where prevailing charges are now lower than 80 percent of the national average.

Mr. Chairman, we must at this time voice concern about a proposal adopted yesterday by the House Ways and Means Committee that would link conversion to an RBRVS with a rationing device called expenditure targets. We are especially concerned that such a program would severely impact on services in rural areas where reimbursement problems already exist and are severe.

With respect to hospitals, AMA is concerned that inadequate payment under the Medicare PPS jeopardizes rural hospitals' ability to provide quality care. We support a variety of measures, including more liberal criteria for hospitals to qualify as rural referral centers and additional payments to sole community hospitals.

We have also supported the Prospective Payment Assessment Commission recommendation that the fiscal year 1989 update factor for the PPS to be set at 3.8 percent for urban hospitals and 4.6 for rural hospitals.

We believe that adequate hospital reimbursement is essential to assure that Medicare beneficiaries continue to receive high-quality care and particularly so in rural areas.

Mr. Chairman, let me conclude by reiterating the AMA's strong commitment to improving rural America's access to needed care. We will be happy to assist the subcommittee in any way as you consider solutions to the variety of problems that too often make access difficult.

I will be happy to answer any questions you have.

[The prepared statement of Dr. Harris appears at the conclusion of the hearing.]

Mr. **English**. Thank you very much, Dr. Harris. I appreciate it.

With regard to the question of reimbursement, in your opinion, is that the primary criteria now determining whether or not a physician decides to set up practice in a rural community versus an urban area?

Dr. **Harris**. No, sir, I don't think that is the primary criteria—it would be one of the primary criteria. The reasons are diffuse and different.

Many physicians coming out of school have loan debt that they need to repay, so they do need to go to an area where reimbursement is adequate to permit them to do that. So financial considerations are important.

Other factors include museums, the opera, theater, airports. They want facilities for their family and sometimes select larger areas because of lack of those facilities in rural areas. However, it seems that it is sometimes too much of a sacrifice to ask them to give up those facilities and those opportunities and move to an area where, in addition to that, reimbursement levels are lower than they would be in the city so that they have a double disadvantage. If their financial incentives are less in the rural area, they have less ability to leave for educational purposes and to expose their family to some of these other opportunities.

So I think financial is certainly a factor, but not the only factor. The factors are diffused and we will need many solutions to those problems.

Mr. **English**. Some have suggested that perhaps part of the problem is that so many of the young people who go to medical school are from urban areas.

Dr. **Harris**. Yes, and I touched on that. I think that is true. There should be an effort to get people from rural areas in medical school. It is very easy for a rural physician, somebody from a small town like I am, to go back to a small town.

Mr. **English**. Right.

Dr. **Harris**. They are comfortable there. Their family is comfortable there. On the other hand, if you grew up in Washington or New York, you may be very uncomfortable in rural North or South

Carolina or Oklahoma or some other rural area. So selection of medical school applicants is important.

Also, training programs should be designed so that medical students have exposure to practice in rural areas. This could be done by sending residents, interns, and fellows out for significant periods of time—6 months or so—so that they can get comfortable in a rural area, rather than a rotation for 1 week or 1 month, where they really don't get any sense of the community.

There needs to be some changes in this area.

Mr. **English**. The problem, though, is that not every person who wants to go to medical school can go to medical school. It is a very selective process. Should States consider quotas of young people from rural areas versus urban areas going to medical school?

Dr. **Harris**. I don't think there is as much of a problem going to medical school as there has been in the past. The admission rate for medical schools is such that there are perhaps 1.8 applicants for each opening now, when it was 7 or 8 just a few years ago. So I think the physicians from rural areas do have the opportunity to go to medical school. Some of them may need financial support; and there may need to be educational loans with forgiveness for going back to rural areas, but the opportunities for rural physicians to go are now present and I don't believe it is the lack of space that keeps them there.

There is a problem, though, during the training process. We have seen fellows and residents in their training begin to pick fields other than primary care. The matching programs are not filling for internal medicine and family and general practice because, we believe, of reimbursement problems there. They are beginning to select higher-paying procedurally oriented specialties. So part of the reimbursement problem is the less-than-adequate relative reimbursement for primary care services. That certainly hurts the rural areas more than anywhere else, because the rural physicians are primarily those who provide care for our rural citizens in small-towns.

Mr. **English**. Then, should we look at in some way restricting, limiting or targeting assistance to those students going to medical school as well as working in some kind of quota system for those young people who would commit to becoming family practitioners and agreeing to settle in rural areas for a certain length of time?

Dr. **Harris**. I think the proper way to do that would be educational loans and assistance to them in their training programs so that when they went back to underserved areas, there would be an incentive to do that. So educational loans, forgiveness of loans, assistance, other kinds of inducements to provide the incentive to go back to rural areas would be very helpful.

I don't think quotas, as I would understand it, would necessarily be as effective as giving them opportunities.

Mr. **English**. Mr. Grandy.

Mr. **Grandy**. I thank you, Mr. Chairman.

Dr. Harris, pursuing this concept of paying off educational debt with service to a community. This is something that has had some effect in educational communities that are losing teachers, repaying some of their educational debt by teaching in distressed areas.

Let me ask you this, though, as we consider these options—and I think most of the members on the Agriculture Committee also serve on the rural health care coalition, which is actively working to reduce the urban-rural differential and some of the things that are clear disincentives to physicians or any kind of health care providers, specifically nurses as well, from locating in some of these rural areas.

But a couple of other issues that will not come under the purview of this committee, but which may compete with some of the things that we are trying to do, come to mind. I am not completely clear on this legislation, but as a representative of the AMA, you probably are.

You are familiar with H.R. 939, the bill that disallows physicians from having their own referral services or clinics—do you know what I am talking about here?

Dr. HARRIS. Are you talking about the self-referral——

Mr. GRANDY. In other words——

Dr. HARRIS [continuing]. For services to a facility you own outside your office——

Mr. GRANDY. If you are a doctor and you own a diagnostic——

Dr. HARRIS. I am familiar with that concept, yes.

Mr. GRANDY [continuing]. Clinic, there is legislation pending that would disallow that kind of——

Dr. HARRIS. Yes.

Mr. GRANDY [continuing]. Cross-pollenization.

Now, I see the purpose for that legislation and I think that we don't want necessarily to foster a kind of medical entrepreneurialism that conspires against patients and drives up the cost of health care. At the same time, rural communities have said to me they are concerned that clinics in rural areas that are perhaps used as referrals by consortiums of physicians in urban areas may be short-changed under this.

Do you have any comments? I mean, in a sense, is this a kind of rural dismantlement or is there nothing to worry about here?

Dr. HARRIS. No. There are rural areas that would not have facilities if physicians hadn't joined together and established a common laboratory, perhaps, or common x-ray facilities that they could use. Physicians in small areas, probably as well as large areas, do sometimes need to have joint ownership of facilities to which they refer patients.

Our concern would be that referral is done properly and not abused. We believe there should be open disclosure of ownership and that patients and the public should know when physicians have a financial interest in such a facility if, indeed, that is true.

There are parts of the country where a facility would not be present if the physician did not have the ability to—either alone or with two or three others in physician groups—provide that facility.

Mr. GRANDY. All right, that is my point. I think what you are saying is this committee perhaps should be somewhat concerned about this pending legislation which might disallow an opportunity for health care in rural communities.

Dr. HARRIS. Yes, sir, I think you should be concerned about that and look, in particular, to see that rural citizens aren't deprived access to such facilities.

Mr. **Grandy**. Now, as I understand, Mr. Stark, who is the principal author of this legislation, does have a sole community provider concept in the legislation that would allow, I think, most isolated rural facilities to be protected. But I am not sure it would cover as broad a base as we define as rural development under the legislation that we are considering.

Let me go on to another point. In talking about the relative-value scale and shifting the payments from specialty-oriented practices, such as surgery and ophthalmology, back to family practice, as I understand it, the Hsiao study out of Harvard has recommended that Medicare pays now more equitably to the family physician or the general practitioner as opposed to the specialist. Isn't that——

Dr. **Harris**. There are inequities in the payment system now with the bias against family practitioners and——

Mr. **Grandy**. But isn't it true that the shift is back the other way now?

Dr. **Harris**. Yes. With the Hsiao study, it would shift reimbursement levels toward the family and general practitioners. If the Hsiao study or the physician payment review commission's recommendations about the RVS are adopted, inequities in the current system would be corrected.

Mr. **Grandy**. Now what impact would you see that having on rural communities because, obviously, and I have looked at a statistic recently in my district, which is northwest Iowa—I have some counties with no physicians at all at this point, but the fact that the tendency is to move toward specialization, particularly when the money is better under Medicare—if we move back to a family-based practice, to general medicine, as opposed to specialty, do you think that aids and abets rural communities?

Dr. **Harris**. Yes, sir. I think that one of the strongest things we could do to improve physician supply in rural communities is to change the reimbursement pattern so that rural physicians are paid equitbly for the same service, which is not necessarily true now.

Mr. **Grandy**. So although we would probably not be saving any money out of Medicare by shifting it back to family physicians, we do, I think, make a significant score for rural communities by doing this.

Dr. **Harris**. Yes, sir, that is true.

Mr. **Grandy**. Thank you, Doctor, those are the only two questions I had.

Thank you, Mr. Chairman.

Mr. **Tallon** [acting chairman]. Thank you.

Mr. Nagle.

Mr. **Nagle**. No questions.

Mr. **Tallon**. Mr. Harris.

Mr. **Harris**. Thank you, Mr. Chairman.

Doctor, you have a good last name.

Dr. **Harris**. Yes, sir, I noticed that when I looked up on the podium.

Mr. **Harris**. Since today is my birthday, I want to congratulate all of you and I appreciate everyone coming out for this event for me.

Mr. **Tallon**. Happy birthday, Mr. Harris.

Mr. **Harris**. You have highlighted certainly some problems that we experience in rural Alabama and I am sure that is true all over the country. As a matter of fact, I think Alabama and Texas kind of bounce back and forth as to which is going to have the most rural hospitals closing.

Health care is a very critical issue to rural America, rural Alabama. We have a health care caucus up here. As a matter of fact, some of the things that you have mentioned that you would like to see done are in legislation that has been introduced by our caucus and hopefully we are going to see some movement on it.

One of them was to try to provide some incentives for people to locate in rural areas and giving them help as far as interest or paybacks or something on loans and other things and also the disparity between the payments to rural hospitals and urban hospitals from Medicare. So there are a lot of things under way and you have certainly highlighted them.

Any key to revitalization of rural America, one of them, is adequate health care. We can't attract businesses—folks to locate their businesses in our area if we don't have health care. It is hard to keep folks living there, hard to keep them on the farm if they don't have access.

So we look forward to working with you and your organization in trying to come up with answers and hopefully to writing legislation that will help rural America share in the progress that so many other parts of our country have shared.

Dr. **Harris**. I would like to say the incentive to get them there is important, but the incentive is to keep them there. In that case, we have to stop this urban-rural bias that has grown unintentionally so that physicians, hospitals, and other health care providers have the opportunity to make a living and do as well in that rural area as they would in a more sophisticated urban center.

Mr. **Harris**. You know, it takes a certain amount of dedication, too, on the part of the professional. He has to want to live in a rural area.

Dr. **Harris**. Yes, sir.

Mr. **Harris**. I know we have a program at the University of Alabama, a family practice program, and the people who participate in that, they have a requirement of spending *x* number of years after their graduation in a rural setting, which has worked out well and has helped provide some doctors to some areas that heretofore have not had them.

Thank you, Mr. Chairman.

Mr. **Tallon**. Thank you, Mr. Harris. Mr. Holloway.

Mr. **Holloway**. Thank you very much, Dr. Harris.

I just want to ask you, and being late in getting here and not reading your statement, I might ask a question you have already answered, but what reason is given—and I guess probably finance is one, but for there being more urban students going to medical school than rural? I mean, is it some special training or do they have better schools in the urban areas or what that you all feel is the reason for——

Dr. **Harris**. As I mentioned earlier, the access to medical schools seems to be less of a problem now that applications are about 1.8 to

1, so applications to medical schools have fallen off. I think one of the reasons may be financial in the sense that rural students tend to have less money. They have more distances to travel, and it is an access problem from that standpoint.

I think role models are another issue that might be important. There are not that many physicians out there, so role models are important. If they see a variety of physicians out there, young people can use them as role models. Truthfully, in this day and time, some physicians are being disillusioned with at least some parts of medicine. If rural physicians are disillusioned with the opportunities they have there, their patients and their families and their students tend to say, "Well, medicine is not that attractive. I don't know that I want to do these things and pay the price."

I have a daughter who I wanted very much to go to medical school, and she could have done it very easily. But I think I am not a good role model for her. She says she just doesn't want to work as much time as I do and not have the backup and not have the time off. So, I think role models is one issue. Also, if we can improve the supply and distribution of physicians so that can be seen in communities, I think that will encourage more people to take that track.

Mr. HOLLOWAY. You might have quoted, but are there any studies that you all have that show the shortage of doctors in rural areas or is there an overall shortage totally in the country everywhere? Is the shortage greater in the rural area? Have you all done studies on that through AMA?

Dr. HARRIS. We have information on that and I would have to answer generically. Yes, there is shortage and there are underserved areas because there is not enough physician manpower. Now, we could get back to you with more specific figures.

Mr. HOLLOWAY. Is it greater in the rural areas than in urban areas?

Dr. HARRIS. Yes, it is, although there are some urban areas that have pockets where there are an undersupply of physicians, too. But over all, it is definitely greater in the rural areas.

Mr. HOLLOWAY. How great is the strain from Medicare and Medicaid? I know some of the hospitals in my district run as high as almost 90 percent of their patients are either Medicare or Medicaid patients. I am sure the innercity may be that same way, but undoubtedly the suburban areas are not.

How bad is that drain on rural areas?

Dr. HARRIS. Sir, I suspect you know the answer, and that is there is a drain there. Small hospitals are closing, and we think the reason that some of them are closing is inadequate reimbursement under the Medicare and Medicaid programs.

A large number of rural citizens are covered under the programs. Reimbursement is such that they are not paid the same amount in rural areas for providing the service than would be paid in a more urban area. So hospitals in rural areas are closing out of economic necessity. Now, in the past, there has been a cost shift to other programs—commercial insurance, Blue Cross-Blue Shield. I think we all recognize some of that exists.

In our State, Blue Cross has just decided they are not going to permit that shift any more. In other words, they are not going to reimburse as they have under their old contracts. So small hospitals are getting more and more pressure on them because not only are they getting less reimbursement from Medicare and Medicaid, private insurance companies, even the nonprofits, are beginning to say, we can't take that shift, so we are going to limit payments.

So if something is not done to help rural hospitals with those reimbursement problems, we are going to lose more rural hospitals.

Mr. **Holloway**. One final question, and that is, Does AMA take a position on equalizing the payments to rural area versus urban area on the payments through Medicare?

Dr. **Harris**. Yes, sir. We believe the urban-rural differential should be eliminated unless there are demonstrable costs that can justify the differential.

Mr. **Holloway**. Is that a new position or has that been the position all along?

Dr. **Harris**. That has been our position for some time. I don't know about several years ago, but that is our current position.

Mr. **Holloway**. Thank you very much. Thank you, Mr. Chairman.

Mr. **Tallon**. Mr. Nagle.

Mr. **Nagle**. Let me ask you, if I may. First of all, let me compliment you on the far-reaching, visionary statement that your group has put together, and I mean that sincerely.

But I am curious on this State risk-pool concept, the coverage of eligibility by creating pools in which people could participate by requiring insurance carriers within the State to form the pool.

Has your organization talked to representatives of the various insurance companies, the insurance industry, as to what their response to this pool concept is?

Dr. **Harris**. Yes, we have had some conversations with them. They don't say a lot. In general, they are not very supportive of State risk pools because they think it would bother their market.

Now, our idea on the State risk pool is that the price of the insurance would perhaps be somewhat higher. We have used a figure of 110 to 125 percent of what is available generally so as not to encourage employers or other people to abandon their programs and pick up insurance from the pool.

We would like, though, for that pool to be there so that reasonably priced insurance would be available. Nobody in this country can afford to buy individual insurance. In fact, it almost doesn't exist. You just can't buy a health policy that gives you basic coverages unless you are a part of a group. Individuals, self-employed, various small employers just don't have access to group insurance.

With a pool that is supported by all health insurers including the self-insured—with perhaps vouchers for the people that are 100 to 200 percent of the poverty level—we believe that having that insurance available would cover large numbers of people who do not have the opportunity to buy the insurance.

Mr. **Nagle**. The prohibition that you cite in your testimony, the States are prohibited by Federal law, the Employees Retirement Income Security Act, ERISA——

Dr. **Harris**. Yes, sir.

Mr. **Nagle** [continuing]. From requiring this self-unemployed benefit plan to participate in State risk pools. Do you know why that prohibition was put in there to begin with? The rationale for the prohibition?

Dr. **Harris**. As I understand ERISA, and I am no insurance expert, the law basically takes regulation of self-insured companies away from State regulation under a State insurance commissioner so that no State laws can require the self-insured to participate in a State risk pool.

Mr. **Nagle**. What was the rationale for putting the prohibition in?

Dr. **Harris**. The answer seems to be uniformity of the program so that each State wouldn't have different eligibility rules for the self-insured programs.

Mr. **Nagle**. Was there some feeling, though—I mean, some—and I may be asking you what you don't know and I am only asking to learn, but is there some—was there some philosophy that you are aware of that dictated why that prohibition would be there?

I understand the reason of uniformity, but I don't understand why prohibition. Why not permission?

Dr. **Harris**. I am not fully knowledgeable of the legislation or why that was in. I think it was not realized at that time that the problem would be as great as it now has developed. As it turns out, the majority of large companies have gone self-insured for the reason they could tailor the benefits and provide what they wanted and could have self-administered plans. They could even eliminate coverage for certain illnesses if they wanted to without regulation by the State insurance commissioner.

As they have done this, there has been more and more people going the self-insured route. They can't be reached by any kind of supplemental premium required by the insurance commissioner to support indigent care pools or such other devices. As the rush from buying commercial insurance to going self-insured has accelerated, there are less and less ways to require participation by insurance companies in pools.

Mr. **Nagle**. Now, let me take you—because we are going to get hit with a vote here in just a second—but let me ask you if I can, the cost increases that we are seeing, of course, in the Medicare Program have brought about some extraordinary remedies.

For example, yesterday, I think House Ways and Means passed a prohibition—we are just going to cap physicians' fees. We are just going to put a ceiling on them. It is not that much money and everybody will have to take a pro rata reduction if you exceed it.

When you propose to change and to increase the reimbursement rate for hospitals, particularly for rural hospitals, does the American Medical Association tell us the source of the revenues to meet that expanded coverage? Where are we going to get the money to pay for it?

Dr. **Harris**. That is always a question. I think we have to, with good conscience, look and see how much money we have and where we want to spend it. There may be many places to look for the money. I don't have the ability to tell Congress where to get the money and I know you have lots of priorities, so you have to look at all of them and decide whether you want to spend this much on needed health care—I am not talking about unneeded health care—or not.

Mr. **Nagle**. The American Medical Association is not recommending, then, an additional surtax on Medicare or additional FICA taxes or anything of that nature? You are not suggesting where we get the money, just——

Dr. **Harris**. No, sir. We think that to take care of the uninsured and the people who need that help, it should come from general revenues. The American Medical Association is on record as supporting increased revenues or taxes on tobacco and alcohol and things that we know are adverse to the health of the American public. So that is one place it can be done as revenue.

We also believe there should be an effort to do some more effective research and try to look and see if there are unnecessary services or unneeded services being provided and make an effort to eliminate any excesses in the system. We believe that physicians, when given proper practice guidelines, will reduce utilization of some services that may be used now. We believe there is definite money that could be saved there. That is a rational approach, rather than trying to just cut everything a certain percent. The proper procedures, and the lower-priced procedures can be identified and the needed services may be cut and eliminated.

Practice guidelines are now being shown to be helpful in reducing expenditures, so if we can save some money that way, we can make up some the other way.

For example, the Pacemaker Program in the Medicare Program has been successful. Guidelines were put out and there has been a decreased utilization, a proper decrease. The Caesarean section rate in Illinois and some other places has been looked at and is being decreased because of proper guidelines that the profession has looked at, so that we have begun to identify some things that can be eliminated. These are things that are properly eliminated and can save money.

So if we can practice more effectively by providing good medicine, good procedures, and identify those things that we can do without, we can save some money.

Mr. **Nagle**. Just to comment real quickly, working with rural hospitals, as we all on this committee do, I think we have about ratcheted them down in terms of—since we are not reimbursing at cost levels, I am not sure that there is a great deal of additional savings that you can tell rural hospitals to absorb in terms of the treatment of Medicare patients.

I mean, they are at the thinnest portion of the meat right now and I am not sure you can get your savings there. Until we solve the revenue question, we are just going to be spending—because we don't have the money, we can't do what you are suggesting.

Mr. **Tallon**. Mr. Nagle, thank you, and Dr. Harris, we sincerely appreciate your testimony this morning. You speak about rural/urban bias and many of our minds that represent predominantly rural areas, it is almost discrimination against rural areas and we are going to work hard. Your testimony certainly has been very helpful and we just again appreciate you appearing here today. Thank you very much.

Dr. **Harris**. Thank you, sir, and in the future, we would like to help or provide any information that we could. Thank you very much.

Mr. **Tallon**. Thank you.

Mr. **Grandy**. Mr. Chairman.

Mr. **Tallon**. Yes, Mr. Grandy.

Mr. **Grandy**. Mr. Chairman, I regret I have to leave for another hearing. I would ask unanimous consent to have a statement inserted in the record.

Mr. **Tallon**. Right, without objection.

Mr. **Grandy**. Thank you, Mr. Chairman.

[The prepared statement of Mr. Grandy follows:]

OPENING STATEMENT BY THE HONORABLE FRED GRANDY
AT THE PUBLIC HEARING ON THE
REVIEW OF RURAL DEVELOPMENT
JUNE 29, 1989

CONSERVATION, CREDIT, AND RURAL DEVELOPMENT SUBCOMMITTEE
OF THE
HOUSE COMMITTEE ON AGRICULTURE

Mr. Chairman, as these hearings on rural development draw to a close here in Washington and we prepare to conduct a series of regional hearings across the nation, I would like to thank you for your leadership on this issue. Over the last four weeks we have heard from a wide array of organizations and people with an interest in improving the health and welfare of our rural towns and communities across the nation -- Members of Congress, farmers, local government officials, physicians, educators, telephone and electric cooperatives, water associations, bankers, development authorities, and many others.

I firmly believe that the issue of rural revitalization and development is one of the most pressing public policy challenges facing our great Nation today. I think we have recognized through these hearings that this challenge is much broader than the purview of this Subcommittee or the Agriculture Committee while at the same time realizing the many areas and programs which this Subcommittee does have authority over which can play a central role in addressing this issue. The problem is multifaceted. A central component of the issue is capacity: the capacity of the transportation infrastructure, water and sewer systems, electrical and telecommunications systems, housing, hospital and other health care facilities. Another key component is opportunity: opportunity to lead, to start a business, to expand a business, to transfer a business, to work in an exciting and challenging job while living in an area with a unique, and high quality of life.

It has become quite evident that the omnibus, multi-jurisdictional policy response which I believe these hearings have been aimed at developing is the proper route to go. I look forward to the regional hearings where we will get a more "hands on" view of rural development from the very people implementing and planning the efforts we have been reviewing here in the "Ivory Tower" of Washington, D.C. It is only together -- grassroots policy implementers and beneficiaries working side-by-side with policy designers -- that we can truly hope to accomplish a wholesale revitalization of nonmetropolitan America.

There are three policy concepts which I believe will be central to an effective rural development policy. They are rural development not dismantlement, local leadership, and capitalization of existing institutions and policies.

RURAL DISMANTLEMENT V. RURAL DEVELOPMENT.

The condition of rural highways and bridges, sewer and water supply systems, hospital, school and jail facilities, and solid waste disposal sites presents small town government and business officials with challenging fiscal and policy choices. The need for funds is great and the local property tax base is insufficient in many areas to meet them. These problems are compounded by federal legislation and regulations imposing new requirements for drinking water, asbestos removal, solid waste disposal, water pollution, etc.

The regulatory burden is often unbearable. It drains all of a community's resources -- time, planning, money, human capital. One witness, a local county supervisor from upstate New York, testified that the Safe Drinking Water Act of 1986 may result in many rural residents who currently pay little or nothing for public water to have to pay $300 to $400 annually for water in the near future.

Going beyond the tax incentives of typical enterprise zone legislation, I believe we may need to create "Rural Regulatory Zones" to provide rural areas with regulatory relief. H.R. 6, The Enterprise Zone Improvement Act of 1989, does authorize federal agencies to waive or modify rules within enterprise zones, but that legislation is aimed more at urban than rural areas. Under current law, only HUD and in isolated instances, USDA, may waive or modify rules. We may need to extend dates for compliance on non life-threatening federal regulations for rural schools, hospitals, etc. Without this, I fear many doors will be forced to close for good.

We also need to review current eligibility criteria under existing programs such as Rental Rehabilitation (i.e., number of units required) so that more rural communities can qualify. Many areas fall in between the cracks -- they are not small cities and don't qualify for programs aimed at those entities, and they are certainly not urban.

LOCAL LEADERSHIP AND THE CLUSTER CONCEPT.

A key to rural development is local control. The idea is not to create a new federal bureaucracy to develop or administer new programs. The idea is to help rural communities help themselves. They are the ones that know their needs, they are the ones who have a vested interest in succeeding. Utilization of block grant programs, with a set-aside for rural areas, for instance, is a much better approach than a new bureaucratic one.

Local leadership development is as central as economic development. We don't need to import "Washington, D.C. bred specialists" into rural areas, we need to provide rural areas with the resources and training necessary so that they can develop their own specialists. One concept that has worked extremely well in North Central Iowa in my District is "clustering." This is simply the voluntary, grassroots idea of a small group of communities who have decided to work together on common problems. The potential for this concept is unlimited. The cluster can pool capital for business start-ups or attracting grant money. It can pool resources for the hiring of economic development or grant writing personnel. The communities can coordinate development activities or do some macro-planning regarding water, sewer, infrastructure, and waste disposal needs. Most importantly, they have a "community" attitude -- they all work together and support one another's activities.

At the same time we do not want new bureaucracies, we do need to improve those we have. A recent GAO report on rural development, prepared at the request of the Ranking Minority Member on this Subcommittee, the Honorable Tom Coleman of Missouri, revealed that there are at least 88 federal programs with a rural development focus scattered through 13 federal departments, agencies, and commissions. There is no one person or agency coordinating the whole effort or being held accountable for the success or failure of the overall program. We need coordination of all rural economic development programs if we are to be successful in appropriately responding to this policy challenge. This is why I have cosponsored Mr. Coleman's legislation to establish a Rural Development Administration within USDA to handle that task.

UTILIZATION OF EXISTING INSTITUTIONS AND POLICIES.

As I noted earlier, infrastructure needs are a major challenge confronting rural communities. The Rural Electrification Administration within USDA has played a gallant role in its 53 year existence by serving rural communities across the country through its loan program and revolving fund with rural electric and telephone cooperatives. It has loaned out $44.6 billion and the cooperatives have paid back $22.5 billion in interest and $14.1 billion in principal. They have defaulted on only $44,000. This is the kind of sound institution and program that we need to use to revitalize rural America. They can manage money, they are in rural areas, they know rural needs, they have a vested interest in seeing rural areas thrive.

The Cooperative Extension Service is another organization that is already serving rural areas. I believe we might be able to utilize their resources better in the area of community economic assistance. They could, for instance, reassign or add staff, with added federal support, to provide technical assistance to community development authorities, non-profit private development organizations, and small businesses.

Finally, we need to improve upon existing programs which are aimed at rural areas. The Financing Rural Economic Development (F.R.E.D.) program for instance, which was created as part of the 1985 Farm Bill, is designed to provide low interest business loans to communities with less than 20,000 residents. Last week I had the pleasure of announcing the offering of a $106,700 F.R.E.D. loan to a lumber processor in my District. This loan will lead to the creation of 10 to 14 more jobs and a 25 percent boost in business. The program, however needs improvement. F.R.E.D. has $20 million in loan authority, yet to date a major portion of that money has not been utilized due to the program's administrative design and federal meddling. This is a great idea and a needed resource; we need to improve its delivery package.

The last program which merits attention is the "Aggie Bond" program utilized by approximately 23 states for the provision of low-interest loans to first-time farmers. Since 1981, Aggie Bond or Beginning Farmer programs in 23 states have provided over $410 million for first-time farmers to purchase land and equipment. Most of these loans are provided by local banks and allow purchases that would have been impossible without the program. Unfortunately, this program is made possible by a tax law provision which is due to expire at the end of this year. Many of us have signed a letter to Chairman Rostenkowski expressing our desire for this program to continue and we have also cosponsored H.Con.Res. 156 expressing the sense of the Congress that this program should be extended by one year.

Today, I am introducing legislation which would extend this program by three years and it also focuses small issue private activity bonds for manufacturing facilities "in those areas that the Secretary of Agriculture has determined are rural areas." This is a "costless" way of providing rural areas with added capital as the federal government has no risk under these bonds. The local bank holds the collateral and bears all the risk of default. I encourage my fellow Members to join me in this effort and I welcome their cosponsorship of this measure.

CONCLUSION.

The challenge is clear and its scope is intimidating, but the commitment of the Members on this Subcommittee and on the House Agriculture Committee to the maintenance and growth of nonmetropolitan America is strong and true. We have heard many ideas over these eight hearings concerning the approaches necessary for adequately addressing the problems and challenges facing our rural communities. I look forward to working with my fellow Members in putting together a comprehensive rural development package. I am confident that with a focus on rural development as opposed to dismantlement, local leadership and clustering, and improvement of existing institutions and policies, we will come forward with a bold and workable program that will turn the tide on the current neglect of our rural communities.

Mr. TALLON. The subcommittee would like to welcome Mr. Rudy Groomes, president of Orangeburg-Calhoun Technical College, Orangeburg, SC.

STATEMENT OF M. RUDY GROOMES, PRESIDENT, ORANGEBURG-CALHOUN TECHNICAL COLLEGE, AND MEMBER, BOARD OF DIRECTORS, NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. GROOMES. Good morning, Mr. Chairman, Representative Tallon, from my great State of South Carolina, and members of the subcommittee.

My name is Rudy Groomes. I am president of Orangeburg-Calhoun Technical College, a member of the Lower Savannah Council of Governments and a member of the board of directors of the National Association of Regional Councils, on whose behalf I am testifying today.

Mr. Chairman, NARC would like to commend you for holding these hearings on rural development and making the effort to hear from so many diverse groups. As you well know, there is great diversity in rural America, and a broad spectrum of issues need to be addressed.

The National Association of Regional Councils represents the [illegible] 500 regional councils in the United States. Our organizations go by a number of names, such as regional planning commissions and councils of government. Many are economic development districts under the Public Works and Economic Development Act or local development districts under the Appalachian Regional Commission, or both.

Their boards are composed primarily of local elected officials creating direct ties between councils and their local governments. Regional councils serve as forums which local governments can pool their resources, engage in joint projects, and more effectively and efficiently coordinate programs, priorities, and activities.

Rural regional council staff are primarily development professionals who assist their local governments in meeting the challenges of economic development. They are typically involved in many State and Federal economic development programs, including job training, small business financing, and management assistance, grantsmanship and technical assistance for member communities, and the administration of revolving loan funds and block grants.

Regional councils are also involved in other program areas such as aging, transportation, and environmental issues.

I am here today to discuss NARC's recommendation to establish a demonstration program to use regional councils to coordinate the delivery of rural development programs. A copy of the proposal is attached, so I will just summarize it.

However, before I discuss NARC's proposal, I would like to briefly restate several points that have been communicated earlier to this subcommittee. First, rural development must come from the grassroots. It must follow a program developed locally and approved by local elected officials.

Local government involvement assures public accountability and provides the local leadership and delivery mechanism so essential for successful rural development programs.

Second, many small rural communities do not have knowledge of State and local development assistance available to them, or do not have the resources to apply for and administer development programs. The bewildering array of programs only adds to their confusion.

Rural regional councils provide much-needed assistance in sorting out these programs and helping communities apply for grants and loans.

Third, the $300 million available for rural development initiatives is not enough to fund a long-term solution to the ills in rural America, and it certainly isn't enough to be used to create new entities and administrative structures to administer new rural development programs.

It could best be used in existing rural development programs such as Farmers Home water and waste water programs and the Economic Development Administration's revolving loan fund for small business assistance. Therefore, what we are proposing, in brief, is the creation of demonstration rural regions as a low-cost means of evaluating long-term development strategy. The demonstration regions would be given the flexibility to coordinate Federal and State rural development programs to meet the needs of their regions.

To do this, two things are necessary. First, States and the regional entities must have a development strategy. Second, the Secretaries of Agriculture, Commerce, and Housing and Urban Development, as well as the heads of other departments and independent agencies that administer rural development programs, must be given discretionary power to change those programs to allow the demonstration regions and their States maximum flexibility to coordinate and deliver them.

The necessary changes would be requested by the demonstration regions and their States. The States would develop a framework for formulating the sub-State regional development strategies. This framework would be developed by a committee designated by the Governor and would include representatives of State executive agencies, board members of regional councils serving in their capacity as local elected officials and as board members, and business and private citizens.

State programs would be used to match Federal resources devoted to the demonstration regions. State programs would also have to be flexible in order to be readily adaptable to the needs of the regions and their localities.

Finally, the demonstration regions would also have to have a development strategy in place and use State and local funding in a manner consistent with the development strategies.

After a specified period, the demonstration regions would be required to report on their progress to the Governor's office. In turn, the Governor would report to Federal officials on the State's overall economic development progress. The reports would examine the effectiveness of the strategies adopted by the Federal, State, regional, and local officials. The funding departments and agencies would conduct an overall evaluation of the program and report to Congress.

We expect that the program would cost approximately $100,000 per demonstration region, with the money going to defray administrative and other expenses associated with developing and implementing the strategy and meetings with State and Federal officials.

The number of demonstration regions would be up to your committee and other Members of Congress, and, we hope, would portray some of the diversity found in rural areas.

The demonstration program could easily be funded with the $300 million contained in the budget resolution for a rural development initiative.

Mr. Chairman, NARC believes that demonstration regions offer an opportunity to explore a rural development program that is within the bounds of criteria that have been presented before this subcommittee. Using regional councils would allow development to be planned and implemented locally. Regional councils or existing entities that are already in place, are familiar with Federal and State development programs, and are familiar to their local governments.

They bring the benefit of a cohesive local planning and coordinating process at an appropriate economic and geographic scale to more efficiently deliver public service.

Regional approaches must be examined by any rural initiative proposed in this time of scarce Federal, State, and local resources.

Mr. Chairman, that concludes my testimony. I will be glad to answer any questions you may have.

[The prepared statement of Mr. Groomes appears at the conclusion of the hearing.]

Mr. TALLON. Thank you very much for an excellent testimony, Mr. Groomes.

Mr. Espy, do you have any questions?

Mr. ESPY. Mr. Groomes, I appreciate the testimony. I am sitting here trying to read through it. Anyone who would read this and anyone who would listen to you would really question whether or not this is just the justification for the existence of regional councils.

I mean, you are asking in this demonstration project that we allocate $100,000 per demonstration region, that we could easily spend the $300 million contained in the Senate budget resolution for the development and establishment of these regional councils and after we spend this money, we wouldn't have done anything except to create another bureaucracy, create another structure, and we still haven't done anything to resolve the problems of rural poverty.

What have we done, other than just create another level?

Mr. GROOMES. What we are proposing is that these be demonstration projects. Again, the number would be left up to this subcommittee and Congress. A number to possibly consider might be 10, possibly a number of 10, and that they would be located either in one State or located regionally around the country.

At the conclusion of the demonstration project, reporting back through the Governor and back to the Congress, we would know whether or not this would be an effective way of developing the rural area.

Mr. **Espy**. Excuse me, if I could interrupt you, are we going to spend $100,000 per region just to establish the fact that that is an effective means to deliver services?

Mr. **Groomes**. If it is an effective means of delivering services, then certainly I would hope that the Congress and this subcommittee would then appropriate funds to assist the other regions. Listening to the previous testimony dealing with medical care, rural development is certainly essential to keep the people in rural America. If we don't have some programs that are coordinated and make those provisions available, including medical care, utilities, transportation, and other services, rural America will become extinct.

Mr. **Espy**. I understand, but after hearing the comments from the subcommittee chairman, I think it is our goal not to create new agencies. Our goal really ought to be to better use the ones we already have and if you are suggesting that we spend $100,000 creating these structures just to test whether we can deliver services when we already have existing structures in place, I don't know how well received that is going to be by the Congress.

Mr. **Groomes**. I think what we are saying is that, unfortunately, a lot of the things in place are not working. This is a demonstration to use a vehicle that exists nationwide. The councils of government exist in every State. In South Carolina, for example, we have 10. They are recognized by the Governor and the delivery of services, whether it is the metro or the rural area, is delivered through the regional councils.

In some areas of the Nation, they are stronger than others, from State to State, but the vehicle is in place to deliver this. It is a matter of using this vehicle to pull these services in and examining the results and see if this is an effective way of bringing rural America back, which is very important.

Mr. **Espy**. Thank you, Mr. Groomes, Mr. Chairman.

Mr. **English**. Mr. Tallon.

Mr. **Tallon**. Thank you, Mr. Chairman.

I can just simply say, in South Carolina, the regional councils play an absolutely vital role in economic development. The smaller communities who don't have the personnel and expertise to find out what is available in an incredibly convoluted Federal bureaucracy, it would just be impossible, and there are so many times that regional councils, the 10 in South Carolina, and I am familiar with all of them—I don't know how active they are in other parts of the country, but we have had incredible success as far as finding funding, figuring out how to coordinate State and Federal programs and really do an outstanding job.

One of the concerns of some—many of the members on this subcommittee has been that when you look at rural development programs in this Federal bureaucracy, they are all over in different Federal agencies and Mr. Coleman is not here presently, but he has suggested—as have others of us from time to time, some reorganization in the Department of Agriculture to consolidate these programs and it would be politically difficult, but really, to get the programs that impact rural development all in the Department of

Agriculture and I just hope that maybe in looking at rural development legislation, that we could make—do some consolidation and restructuring and pulling together programs so we can—even for the regional councils that do an excellent job, make it a little easier to identify and find out how Federal and State programs can work together even more effectively.

I just simply appreciate the job you folks are doing in South Carolina and congratulate you on your testimony. Thank you.

Mr. GROOMES. Thank you.

Mr. ENGLISH. Ms. Long.

Ms. LONG. I have no questions, Mr. Chairman.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. No questions, Mr. Chairman.

Mr. ENGLISH. Thank you very much, Mr. Groomes, we appreciate your testimony.

Our next witness is Mr. Michael Wenger, who is the States' Washington representative with the Appalachian Regional Commission.

Mr. Wenger, we appreciate your appearing before us today and, as we have told our other witnesses, if you would care to summarize your testimony, please feel free to do so. We will include your complete written testimony as part of our record.

STATEMENT OF MICHAEL R. WENGER, STATES' WASHINGTON REPRESENTATIVE, APPALACHIAN REGIONAL COMMISSION

Mr. WENGER. Thank you very much, Mr. Chairman. I appreciate the opportunity to be here this morning, and I will try to briefly summarize my statement.

For the past 22 years, I have worked in and for rural America, at the community level, the municipal level, the State level. I have run a tutoring program for a county antipoverty agency, directed State and municipal community development programs, and have been a deputy State welfare commissioner and a State commissioner of employment security.

In all of those jobs, I have participated in rural development at many levels from many perspectives. I have seen successes and failures, but as the States' Washington representative for the Appalachian Regional Commission, representing the 13 Governors who comprise half of the Commission partnership, I have been a part of what I consider to be the finest example of how government ought to work at every level and on virtually any issue.

I appear here today, in large part, because the members of the Appalachian Regional Commission, the Federal Co-chairman and the Governors of the 13 Appalachian States are committed to the revitalization of distressed rural economies and because they are deeply concerned with certain provisions of Senate bill 1036, the Rural Partnerships Act of 1989, which is currently pending in the Senate.

Without going into detail on that bill, let me say, first, that the members of the Commission are delighted with the current focus in both bodies on the problems of rural America. The attention is long overdue and we are grateful for those members who have recognized the needs which exist.

At the same time, we believe strongly that any effort, in the words of 1036, "to improve the economic community and educational well-being of rural America" must, in order to be successful, provide for the following: one, a full-fledged and meaningful partnership among Federal, State, and local governments and between the public and private sectors; two, sufficient flexibility to meet different needs in different areas without the establishment of artificial and arbitrary limitations which may exclude many rural areas which are in desperate need of assistance; and third, provide for elected public officials at all levels a degree of responsibility and authority which will ensure the stable and effective implementation of public policy and which will enable the citizenry to legitimately hold them accountable for successes and failures.

In particular, we believe strongly the Governors are in a unique position to view local needs within the context of Federal goals and regional and State priorities; and, therefore, they should have key roles in the design and implementation of any set of programs to assist rural America.

Nearly a year and a half ago, the members of the Commission adopted a set of principles, which reflect these beliefs, and those principles and some background are in my prepared text so I won't repeat them here.

But let me, in my brief time before you, translate these principles,which have at their core the concepts of partnership flexibility and accountability, into specific suggestions. First, we believe there should be created in the White House the position of Assistant to the President for Rural Affairs for the purpose of coordinating Federal programs and policies for rural America and linking Federal efforts to State and private-sector activities. The success of any effort to revitalize rural America depends in large part on the leadership, coordination, and resources of the Federal Government and it must start in the White House.

Second, Governors must have a meaningful role in establishing goals and priorities, both for their States and for their regions, in concert with other Governors from the region. They should have a significant voice in the distribution of resources within their States and should be provided with incentives to allocate State resources to match Federal resources. They should be encouraged to continue their leadership in devising new initiatives for rural areas.

As we all know, economic problems do not recognize local or county boundaries; often they don't recognize State boundaries, but they do vary from region to region throughout our Nation. The problems of rural Northeast are different from the problems of central Appalachia or the Lower Mississippi Delta or the rural West and so on. Only the Governors, working together, within some sort of structure, are in a position to provide the necessary regional focus and direction and, at the same time, to ensure a coordinated and equitable approach in dealing with the rural areas within each State.

The Appalachian Regional Commission did a recent county-by-county analysis of economic conditions throughout the United States and I think that analysis suggests the validity of this approach. The results are shown graphically on this map, which I will also submit as an attachment to my prepared statement for the record.

It depicts the relative economic condition of every county in the United States. There are 319 counties in red and they represent the most severely distressed counties in the Nation. These severely distressed counties are primarily rural and they are situated in four pockets: Native American areas of the Southwest; border counties of Texas; the oil fields in the delta region of the South; and the coal fields of central Appalachia. Solutions to the problems being experienced in these areas require Federal leadership and assistance, but equally important, because each of these regions faces problems common to the States within each region, but unique to that region, cost-effective, long-term solutions require cooperation among the Governors of the States in each of these regions.

Two of the areas are already served by such regional structures in which the Federal Government and the States are partners, the Appalachian Regional Commission which serves central Appalachia and the Lower Mississippi Delta Development Commission, which covers the Lower Mississippi Delta area and the oil fields of the South in which Mr. Espy has played such a vital role in creating.

Third, existing local regional development organizations should, to the greatest extent practicable, be used to plan, prioritize, and implement local projects within the framework of national goals and regional and State priorities. I sympathize with the gentleman who testified before me. I am not sure exactly why we need demonstrations because the organizations that he is talking about have already proven their worth beyond the shadow of a doubt. They are governed by boards composed of county and municipal elected officials and representatives of special interest groups, the business community, and private citizens. They have been the bedrock of the bottoms-up planning effort which has characterized much of the Appalachian Regional Commission's work. They are largely responsible for the substantial grassroots support enjoyed by the Commission. Similar organizations exist throughout the rest of the Nation, often funded by other agencies of the Federal Government, and I think we should use such a mechanism which is already in place.

Fourth, flexibility to design specific programs to meet specific problems in specific regions must be permitted. Rural areas are diverse economically and demographically. The problems of rural West Virginia are different from those of rural Oklahoma or rural Mississippi, rural Iowa, rural Minnesota, or wherever.

We must have legislation which enables us to strengthen human resources, meet physical infrastructure deficiencies and satisfy the needs of business for access to new technologies and adequate capital, but we must not mandate common solutions to different problems in different places.

State and local officials must make those decisions and they must be held accountable for them. These are principles which have served the Appalachian Regional Commission well. They are in evidence in the recent creation of the Lower Mississippi Delta Development Commission. They have worked for us and I believe they can create the framework for the success of future rural development efforts.

Let me conclude by addressing the issue of cost. Clearly, aggressively pursuing the revitalization of rural America is a costly undertaking, but I believe it is in our national interest to make the revitalization of our rural economy an urgent national priority. First, just as our national economy and the economies of foreign countries are interdependent, so, too, are our urban and rural economies. In addition to the obvious need for the foodstuffs we produce on the farms, we need the natural resources, the minerals, the oil, the timber which abound in rural America, and if we fail to address these problems, the result may well be increased dependence on foreign resources.

More profoundly, I think, large-scale movements of people from distressed areas to find jobs can create chaos—economic, political, and social chaos. In the late 1950's and 1960's, there was large-scale out-migration from rural areas to the cities in search of jobs. People settled in a variety of urban areas around the country. Many of those people were like fish out of water. Often they wound up unemployed and living in large concentrations of intractable poverty, the ramifications of which can still be seen today. And that trend, as we sit here right now, is being repeated today. If it continues, we may ultimately create an entire class of transients without roots or support systems.

The resultant economic, political, and social instability will affect the entire Nation and further erode many of our traditional values. Because if the grip of urbanization and suburbanization continues to tighten, life in the big city is going to become more complex, more confusing, more fast-paced. Crime, traffic congestion, and pollution will continue to increase, and the traditional values upon which our country has been built—honesty and integrity, independence and self-sufficiency, hard work and thrift, a sense of family, and a sense of community and a measured pace of life—are going to become more distant.

Young and better educated people are being forced to abandon rural and smalltown America for the cities in search of jobs to support their families and what we have are increasingly overcrowded cities populated by increasingly overstressed people.

This committee is faced with a daunting task, balancing the budget constraints, of which we are all aware, with the equally clear necessity to address the needs of rural America and with the competing interests of various groups which have a stake in the future of rural America.

I think the principles that I have enunciated here growing out of the lessons of the Appalachian Regional Commission hold the promise of enabling us to effectively address these needs in a uniquely cost-effective manner. The decisions you are going to make in this committee will help determine whether rural America, as we know it, will survive. Whether we will be able to effectively respond to the special opportunities and problems which face rural areas will help determine the type of future which awaits rural America, and perhaps all America, as well as the endurance of the traditional values which we cherish.

I thank you very much for this opportunity and I will be pleased to answer any questions you might have.

[The prepared statement of Mr. Wenger appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you very much, Mr. Wenger.

Would the Appalachian Regional Commission, or that States in that area, be able to take advantage of a matching provision?

Mr. WENGER. In what regard?

Mr. ENGLISH. If they have to put up money in order to receive assistance? Do they have the resources to match?

Mr. WENGER. Well, in fact, the Appalachian Regional Commission is based on that concept right now. Most of the projects which we fund at this point require 50 percent State and local match programmatically, but beyond that, the Commission is unique in that the States pay half of the administrative costs of the Commission as well, so in fact, there is a match across the board, both programmatically and in terms of the administrative costs of the Appalachian Regional Commission.

Many States in Appalachia are struggling economically. They have limited resources. Those resources do tend to limit from time to time the kinds of efforts they can undertake, but a matching formula is required within the Appalachian Regional Commission.

Mr. ENGLISH. If we come up with an additional matching program, would they have the additional resources to be able to match a new program?

Mr. WENGER. I think that varies from State to State. I think that there are some States where that would really be a struggle right now. I think of my own State of West Virginia, where the Governor recently passed a $200 or $300 million tax package just to fund roads and physical infrastructure projects. It was a very difficult decision that they had to make, the Governor and the State legislature, but they did it because they are committed to the revitalization of their economy.

I think it would be a struggle for many States, but I think by and large they would come up with the money if the promised result was the economic revitalization of their States.

Mr. ENGLISH. Mr. Espy.

Mr. ESPY. Thank you, Mr. Chairman.

Mr. Wenger, I just want to compliment you on your testimony and also compliment the ARC on the work that it has carried out over the past, I believe, 24 or 25 years since its existence.

You obviously can serve as a great model for a new commission, like the Lower Mississippi Delta Development Commission, which was just formed in January, which has to make its first interim report this August.

They have a lot to do, but they have a sort of "Big Brother" to look to for help. In this 24-, 25-year period, it is my estimation that the Congress has appropriated about $6 billion to the ARC for work in this 13-State region. That money has filtered down in a way that you suggest in your testimony, through the three principles, partnership, flexibility, and accountability, but that is $6 billion and here we are in 1989 and we know that, with the budget limitations that we are facing now, we won't be working with those kinds of sums. In fact, yesterday, when we passed the energy and water development appropriations bill, the appropriation to the ARC was significantly less than that, around $110 million, I think, as I was looking yesterday.

Would you tell this subcommittee, over this 25-year period, what two or three things has the ARC spent the money on in this last quarter century?

Mr. WENGER. Thank you very much for your kind comments, Mr. Espy.

About two-thirds of the commission money has been spent on the construction of a network of highways. One of the real problems in Appalachia 25 years ago, when Franklin D. Roosevelt, Jr., headed the President's Appalachian Regional Commission and made a report to the Congress, was that Appalachia was in economic trouble because it was so isolated. They recommended a major effort to build roads in the region, but not just roads to haul traffic, but roads to promote development.

There is a 3,000-mile system that was planned by the Commission. About 2,000 miles of that is now complete. About two-thirds of the money you refer to—and I think your figure is about right; it is between $5 and $6 billion, closer to $6—about two-thirds of that money has been spent on highway construction and still, to this day, about two-thirds of whatever we get, which is down to about a third of what we were receiving in the late 1970's, is devoted to highways.

Another major effort which we engaged in, which is now complete, is the construction of vocational education schools throughout the region and the equipping of those schools and programmatic assistance to those schools. You can go throughout the region now and you can find a series of vocational education schools and programs serving the region and the Appalachian Regional Commission has money in every one of those schools.

The third thing we did, and I was interested in the testimony of the gentleman from the AMA before, was we developed a series of primary care health clinics throughout rural Appalachia to achieve our goal of making primary health care accessible within 30 minutes to anybody who lived in the region. We still have many counties that do not have a physician. I think of Clay County, WV, adjacent to my home county. But at least at this point, with the creation of rural primary care clinics, everybody is within approximately 30 minutes of primary care.

I would count those as our major achievements, the ones that we are proudest of, in addition to the physical infrastructure, access roads, water and sewer systems, housing, and that sort of thing.

Let me say one other thing. In recent years—in the late 1970's, our appropriation approached $350 million a year. Now, as you say, yesterday our appropriation in the energy and water development bill was $110 million, which is consistent with what it has been in the last few years. With that limited amount of money, we obviously can do only more limited things, but because of the flexibility which the Commission enjoys, we are able to target that money where the Governors and the Federal Cochairman feel it can do the most good, so that we are now devoting resources to small drop-out prevention projects; we are putting seed money into drop-out prevention projects; we are putting seed money into adult literacy projects; we are doing some studies on the problems of small rural hospitals, which was referred to by the earlier testimony. We are not able to put the level of resources that we did in the past, but we are able to identify problems which exist and make an impact on them, even with our limited resources.

Mr. **Espy**. Thank you. You just answered my second question. I was going to ask you, as we look now to the next 25 years, obviously we are not going to be working with these types of sums, and obviously, I think, that a lot of us here would like to get on toward developing the—resolving, rather, the human infrastructure problems rather than the physical, the roads, the bridges, and the physical things. I wish we could and there might be some who might suggest this, but I don't know if it is going to happen.

But the other problems, the business incubation centers, the rural development banks that you are doing there are, I think, a great model for us and I appreciate your testimony and appreciate the work of the Commission.

Mr. **Wenger**. Thank you very much, and let me say that the beauty of the Lower Mississippi Delta Development Commission is that, again, it brings together the diverse elements in the community, in the State, and with the Federal Government and with the public and private sectors so that even though there may be only a limited amount of money, that money will go toward addressing the needs that local people feel are the most significant. That is the beauty of that kind of an arrangement.

Mr. **Espy**. Mr. Chairman, with unanimous consent, could I just ask one other question because this has been really a good model.

You are talking about flexibility and accountability from public officials and Governors in particular. Have you had any problem with developing a bipartisan approach? I mean, so many of the Governors are elected and reelected every 4 years, the Republicans and the Democrats, and obviously they have different agendas and different ideas and different priorities. How have you been able to bring them together? Do you have to sit them all in a room and shut the door and not let them out for lunch or what?

Mr. **Wenger**. You know, Mr. Espy, the beauty of the Commission is that it has retained its bipartisan support. I am not sure I can tell you exactly why except that most of the Governors who I deal with think it is the best Government program they have ever dealt with because it gives them the kind of flexibility that we were talking about earlier.

In 1981, when President Reagan announced that he wanted to eliminate all regional commissions, including the Appalachian Regional Commission, there was a resolution drafted by Governor Alexander, the Republican Governor of Tennessee, and Governor Rockefeller, then the Democratic Governor of West Virginia, and adopted by all 13 governors unanimously, and that included 4 Republicans and 9 Democrats, saying that the Appalachian Regional Commission was the best Government program with which they worked and they wanted, whatever else might happen, they wanted the Appalachian Regional Commission in its current structure preserved because it was the best Government program they work with.

That was adopted by nine Democrats and four Republicans, including some strong partisans of the Reagan administration. In the Congress, in this body, 2 years ago, H.R. 2686, I think it was, which would have reauthorized the Appalachian Regional Commission for 3 more years, was adopted by a vote of 330 to 89 that included, obviously, a number of Republican members. I think it is simply because it is a program that has worked and it has worked because of the bottoms-up process and because of the flexibility that enables local people and Governors to decide where the money goes.

Mr. ESPY. Thank you, sir, and I thank the chairman for his indulgence.

Mr. ENGLISH. Ms. Long.

Ms. LONG. Thank you, Mr. Chairman.

I also want to compliment you on your testimony because you have not only illustrated some of the problems that you have dealt with and how you dealt with them, but you have gone further than that and made some proposals.

On first reading, your proposals have, I think, a lot of validity and appear to me to be very sound. I have a question and that is, if we were to try to put together—and by "we," I mean more than the U.S. Congress—but if we were to try to put together a program following your proposal, following your broad outline here, what role do you think the U.S. Congress should play and, as a part of that, you indicated that there needs to be an advisory position created for the President. How would that be included in or separated from the Secretary of Agriculture's position? How would it be separate from the Department of Agriculture? How do you see this working? How do you see us all working together to develop such a program that would be in operation across the country?

Mr. WENGER. To respond to the second part of the question first, we now have several different agencies dealing with rural development. We have the Department of Agriculture. We have the Department of Commerce. We have the Department of the Interior, et cetera.

I think, and the Governors feel, that in order to provide the requisite focus and the requisite attention, that there has to be somebody in the White House who is charged with coordinating the various efforts. We don't want to take authority away from the Secretary of Agriculture or the Farmers Home Administration or REA. We don't want to take authority away from the Secretary of the Interior nor from the Secretary of Commerce.

But we do believe that a position in the White House serves two purposes. First, it says to the country that we are concerned, deeply concerned about the problems of rural America and we want to deal with those problems and those problems have the attention of the President. The second thing that it does is, it takes the various disparate programs and coordinates them in a more effective manner than they are currently being coordinated.

For example, we have a Federal Cochairman at the Appalachian Regional Commission who is appointed by the President. One of her jobs is to deal with the other agencies to make sure that the assistance coming to Appalachia is not duplicative, is coordinated and does reflect the needs, as she understands them, from the Governors and from local officials.

That has been—although it is not often talked about—that has been one of the big advantages of the Appalachian Regional Commission, that that Federal Cochairman, although at a lower level than an assistant in the White House, but that person has been, over the years very successful in coordinating resources to Appalachia from other agencies in the most effective manner.

When the ARC first started, we were limited to providing supplemental matching funds so that the Department of Commerce or Farmers Home Administration might provide 50 percent of the money for a sewer system, local and State could not match the other 50 percent. The Appalachian Regional Commission would come in with 30 percent, up to a maximum of 80, and then the local and State entities could come up with the other 20 percent.

So the advantage of someone in the White House is, A, attention, and B, coordination. Now, in terms of the Congress, obviously we believe legislation that is passed by the Congress should reflect these concepts, should reflect the kind of partnership that we are talking about here. There are a number of different ways to skin a cat. I am not suggesting that you have to adopt the Appalachian Regional Commission model hook, line, and sinker. Obviously, there are several different ways to go, but we believe strongly that legislation adopted by the Congress should reflect the principles that I have outlined here today, and that are in the resolution adopted unanimously, again by nine Democratic Governors, four Republican Governors and the Republican Federal Cochairman, a year and a half ago.

I will say one other thing, and that is, that one of the other advantages of the Appalachian Regional Commission structure is that it enables us to work closely with the Congress. Unlike block grant programs where all the money goes to the State or to the local entity and that is the end of it, we have a constant partnership going on. We are constantly in consultation with members from the various districts in the region because we are a Federal/State partnership. Unlike block grants, we must maintain that partnership in order to survive. It has worked beautifully well.

Ms. LONG. Thank you.

Mr. ENGLISH. Mr. Tallon.

Mr. TALLON. No questions, Mr. Chairman.

Mr. ENGLISH. Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

What are the population trends in the counties within the Appalachian Regional Commission?

Mr. WENGER. They vary. Central Appalachia, which is West Virginia, eastern Kentucky, east Tennessee, southwestern Virginia, there is an out-migration going on. Some of the areas where the work of the Commission has resulted in significant economic gain, north Georgia, western North Carolina, the part of—six counties in South Carolina that are part of the region, there has been a growing population, in fact, in recent years, so I have to answer that question in two ways. There is a part of the region, central Appalachia in particular, which is in particular distress right now and that also would include parts of Mississippi and Alabama; and there is a part of the region, particularly western North Carolina, going down to South Carolina and north Georgia, which is doing well and they are seeing an increase in population.

Mr. **Penny**. What is the factor at play in that region of growth? What kind of economic activity is the factor that is stimulating growth in the North Carolina, Georgia, South Carolina area?

Mr. **Wenger**. There are a variety of reasons for that. In North Carolina, actually it has become a great retirement community, western North Carolina, and there is a lot of migration.

Mr. **Penny**. Into that area.

Mr. **Wenger**. Into that area and into north Georgia, as well, because of the low cost of the area, low cost of living in the area, the beauty of the area, the sort of measured pace of life of the area. There is a great influx of seniors.

Mr. **Penny**. So that is an influx of population and I would guess primarily the economic activity at the local level to support that population is retail in nature. We are not talking about manufacturing firms or processing facilities, by and large, but retail establishments that support that growing population.

Mr. **Wenger**. Retailing and service industry.

Mr. **Penny**. Yes. Is there any area within the region where you can point to growth that is tied to the advent of a new agricultural crop, processing, anything else that is indigenous to the region that is resulting in job creation?

Mr. **Wenger**. The biggest—the primary job creation activity in the region is in the service industries, wherever and whatever that might be. We have also seen along the highways significant development of small businesses, service businesses, distribution, that sort of—small manufacturing along the roads. In fact, we did a study recently that showed that from 1980 to 1986, about 81 percent of the 600-and-some-thousand jobs created in the region during that period were in counties where there was a completed interstate or a completed Appalachian highway.

Along those corridors, you see the development of small manufacturing, distributive services and that sort of thing. That is where most of the growth is taking place, wherever those roads are.

Mr. **Penny**. Are we seeing a number of counties and communities within this area gradually aging as the young generation moves away as they get to be working age?

Mr. **Wenger**. That is a deep concern of ours. In the 1950's and 1960's, that happened in wholesale fashion. In the 1970's, that was reversed, in large part because of the attention paid to energy resources. A lot of people came back to the region, particularly to coal country, in central Appalachia, but in the 1980's, that trend has been reversed again and we are seeing young people leave. That is a deep concern of ours.

We have a situation, in fact, where, because of mechanization, we are mining more coal in central Appalachia than we have ever mined before with many fewer miners than before.

Mr. **Penny**. But I guess my point is that retail establishments and small-scale operations along the highway corridor aren't enough, really, to retain that younger generation. That is just not enough economic activity to hold onto these folks, so it doesn't seem to me that we have anything going on here that is going to stop that out-migration.

Mr. **Wenger**. Again, I think that varies from place to place and in many areas, you do see—we saw in the 1970's activity that kept young people at home and that brought people back. As I said, because of the reversal of the trend in the 1980's, we see that concern again, but I would say that the development of small business, the development of small manufacturing, the development of the service industry does have the potential to keep young people there. It is a matter of making the jobs attractive enough to keep them there because, in fact, most of them would like to stay.

Rural America is a very attractive place to live. Rural Appalachia is a very attractive place to live. It is a matter of being able to have an income sufficient to support your family.

Mr. **Penny**. But other than some of the infrastructure investments that you have made, ARC isn't really heavily involved in assisting small businesses and stimulating the economic enterprises and so, while you are right, that that is the way to keep folks there and an awful lot of jobs can be created if there is a climate for a small business to set up shop, it doesn't appear to me that that has been a direct role of ARC. It is more of an indirect outcome of some of the things that you have been doing.

Mr. **Wenger**. In fact, in recent years, that has been a very strong focus of the Appalachian Regional Commission. I would say in the last 4 years, we have funded enterprise development efforts in several States; we have funded incubator projects in a number of areas; we have capitalized revolving loan funds in a number of areas. We held a conference on small business. We held a conference on technology transfer. We have put a lot of attention in recent years into the creation and the support of small business and we did a major study about 2 years ago in Pennsylvania in which we looked at 1,500 firms to determine the characteristics of small businesses that had been started in the previous number of years in Pennsylvania and to determine how we could assist more small businesses to start and to prosper in the region.

So, in fact, in the last 4 years or so, we have devoted a considerable amount of our time, energy, and resources to just that.

Mr. **Penny**. But here again, because of the location—I mean, it is not as if you are near a lot of big population centers. It is, I would guess, tough to identify the kinds of firms that can establish in that area when your markets are far away from the region.

Mr. **Wenger**. Certainly you have a point, however, again, I would say that the construction of the roads has made an enormous difference and has the potential to make even a greater difference.

For example, Charleston, WV, which is the capital, is probably more centrally located to a greater population than virtually any city anywhere. I mean, you can get to Atlanta; you can get to the population centers of North Carolina; you can get to the population centers of Pennsylvania; you can get to the population centers of the Midwest and the population centers of the Northeast relatively easily now with the roads that have been constructed. In fact, the chamber of commerce in Charleston advertises that. There is a map which shows, concentric circles, which shows how close they are to population centers. So while it is true, obviously, there are advantages to locating closer to markets, but much of Appalachia, because of the roads and the potential because of the roads yet to be built, is centrally located within striking distance of many large markets.

The attractiveness of the rural areas, the attractiveness of low-cost living in rural areas—or lower cost of living in rural areas—has the potential to make this a growth area for small business.

Mr. PENNY. I think clearly that is the next threshold that you are going to have to cross. I mean, you have gotten to the point where your investments in the infrastructure are coming to a conclusion. You are well through that part of the equation, but that investment just doesn't pay dividends if there isn't a follow-through in the other area to actually stimulate those kinds of industries in this area. In other words, we have roads leading to nowhere and I really think that all of us on this committee are more worried about making things happen in an economic sense in our rural communities and that is what we would like to accomplish with any rural development initiative, to make it possible for jobs to be created in these communities.

So if we are to use your model in terms of partnerships and flexibility, which I think most of us concur are more appropriate than a rigid regimented kind of Federal program, I think our effort is going to be more focused on trying to provide a stimulus to start up new businesses in rural areas, businesses that are peculiar to that rural setting, not, you know, a bowling alley or some other retail outlet that comes all by itself, but something that has a real basis in that rural area and something that can be marketed to the broader population.

I have the same concern about the delta region. I was down in Mike Espy's district a couple years ago and the very similar challenge there is what do you do in some of these small communities where the only job available is a seasonal job doing work in the area fields. I mean, that is no future for any of these folks, and without some other type of job potential, the only recourse we have is to educate the next generation and get them out of there, and I don't think that is what Mike wants for the future of the delta region. I don't think that is what we want in southern Minnesota; I don't think that is what you want in the Appalachian region, but it all comes down to jobs and the jobs have to have something to do with the raw materials of your area and it has to be connected to markets beyond. But otherwise, we are just kind of chasing our tail here and we are never going to get out of it.

Mr. WENGER. Mr. Penny, I could not agree more with what you have just said in terms of the emphasis of this committee and in terms of the needs of rural areas. I think, in a nutshell, you have said exactly what needs to be said and needs to be done.

Mr. ENGLISH. If there are no further questions, Mr. Wenger, we appreciate your testimony.

We are about halfway through our witness list. If it is all right with the members, we will recess until 1:30 p.m., and then come back.

Mr. ESPY. Mr. Chairman, I don't think I see Mr. Farmer from MACE, from Greenville, MS——

Mr. ENGLISH. I understand he is not going to be able to make it.

Mr. ESPY. I don't think he will be here.

Mr. English. You are right, but we still have three witnesses to go, so it would probably be about 1½ or 2 hours of work left.

Mr. Wenger. Thank you very much.

Mr. English. We will recess to 1:30 p.m.

[Whereupon, at 12:05 p.m., the subcommittee was recessed, to reconvene at 1:30 p.m., this same day.]

Mr. English. The hearing will come to order.

We are going to go a little out of order. Mr. Gressette is here and ready to testify.

Our next witness is Mr. Lawrence M. Gressette, Jr., SCANA Corp., testifying on behalf of Edison Electric Institute in Washington, DC.

We want to welcome you here today and as we told our other witnesses, if you care to summarize your testimony, your complete written testimony will be made a part of the record.

STATEMENT OF LAWRENCE M. GRESSETTE, JR., PRESIDENT, SCANA CORP., ON BEHALF OF THE EDISON ELECTRIC INSTITUTE

Mr. Gressette. Mr. Chairman, my name is Lawrence Gressette, president of SCANA Corp., a holding company which owns and operates South Carolina Electric & Gas Co. I represent the Edison Electric Institute.

We appreciate this opportunity to testify at these hearings on rural development.

I would like to submit a written statement for the record and to comment on this most important issue.

EEI is the association of electric companies. It has more than 180 members who serve 97 percent of all the customers served by the investor-owned segments of the industry.

EEI members generated approximately 77 percent of all electricity in the country and provide electric service to 73 percent of the Nation's ultimate electric customers.

More importantly, for the purposes of this committee, I believe, is the fact that more than half of the 62-million rural Americans in this country are served by electric investor-owned utilities and that equates to some 31 to 32 million people.

A survey of EEI membership indicates that 55 percent of the respondents described their business as being predominantly rural.

Investor-owned utilities are serving rural America as well as urban citizens.

We are in the smalltowns and villages. We live in them. We have a commitment to them and we serve their needs.

We have already responded to a number of their economic development needs.

As the subcommittee develops a legislative initiative, EEI strongly recommends that all local electric utilities be included as active participants.

Investor-owned electric utilities have established an excellent track record of participation in rural development.

Economic growth and development have been a focal point of activities in rural areas particularly in areas if you will pardon the personal reference, in areas where my company serves.

South Carolina Electric & Gas Co. between December of last year and June of this year through its holding company have contributed local matching funds for grants in seven communities totaling in excess of $164,000.

We have been able to leverage these contributions into $10 million for wastewater treatment, water treatment facilities, and road improvements.

These funds meant approximately 1,100 new jobs in smalltowns having an average population of 4,200 people.

Mr. Chairman, in your home State of Oklahoma, for example, as I am sure you aware an investor-owned utility, Public Service Co. of Oklahoma, only last month assisted the city of Grove in securing a $500,000 grant.

That grant resulted in the location of a new business in that community which as I understand has approximately 3,300 people with 50 new jobs in the first year and expansion to 150 by the third year.

It is important for all utilities investor-owned, municipal or rural electric co-ops, and all groups capable of providing assistance to work with local rural communities in their development efforts.

You have asked us to respond to several items and I would like to do that at this time.

We feel that as part of an overall economic development strategy or program, that a combination of public and private entities providing financial and management assistance is an effective way to foster new business.

In this regard, there are specific areas in which utilities can participate. In communities where resources are limited, utilities could act as a recipient for Federal funds and in turn could reallocate and leverage these funds to rural businesses both new and existing and possibly for incubator programs.

Lines of credit or essentially grants could be made available to recipients, including electric utilities who would then make revolving loan funds which would be matched by private funds available to local businesses.

Other potential broker recipients might include State agencies, regional economic development organizations, State and local political subdivisions, and community development corporations.

Any Federal funds available for a program such as this could be used, for example, for equity capital, for training, for technical and management assistance, for operating expenses, and capital expenses.

Consideration, we feel must be, given or may be given, to a requirement that any Federal funds be matched by funds from local lending institutions or from elsewhere in the private sector including investor-owned utilities.

Limitations should be placed on the amount of Federal assistance which could be provided to any one local business or project.

By contrast, as I understand under Senate proposal bill S. 1036, utilities and any other for-profit corporations would be required to establish a separate nonprofit subsidiary in order to receive Federal assistance, although this might work for some of our companies, the rural customers of any of our companies who are registered holding companies under the 1935 Securities Act could not participate in a program like this and in view of recently-announced proposed rules by the SEC other members companies that are now exempt from the Holding Company Act may also be precluded.

It seems to us that the objective should be to provide assistance to rural areas in the most effective way possible and corporate structure should not be the determining factor, but rather the best possible provider should be utilized.

If the issue is accountability in requiring a nonprofit subsidiary, the fact that investor-owned utilities are rigidly regulated and audited by both Federal and State agencies should address that concern.

There appears to be no convincing reason why entities like investor-owned utilities should have to change their spots, so to speak, in order to be able to participate in such a program.

In addition, we realize that rural economic development means more than simply assisting and encouraging the development of new and existing businesses in rural America.

Other things are important—education, technology, telecommunications, water and sewer development, medical services and facilities, in short, a new infrastructure for rural America.

All these require improvements and assistance. In this regard, we believe that new bureaucracies and duplicative programs are not needed. Rather, those departments and agencies already able to provide this kind of assistance should receive any additional or preferably reallocated funds.

Only when it is clear that such assistance is not available should consideration be given to providing existing agencies with new responsibilities.

For example, we believe it is inappropriate to shift any infrastructure programs to REA.

The Farmers Home Administration, EPA, among others, have existing programs that may need to be fine-tuned for rural communities, but any shift to an agency with a limited community base such as REA is inappropriate.

Regardless of how any Rural Development Program is designed, EEI strongly believes that the receipt of any Federal assistance should not be tied to the provider of electricity or any other service.

In other words, providing assistance under any initiative the subcommittee may design should not be conditioned on the recipient accepting some other service.

Likewise, EEI believes that some restrictions should be placed on any Federal assistance to prevent the use of such funds for the takeover of utility property or to entice developers or customers with nonregulated electricity pricing mechanisms.

In response to your request for our suggestions for financing a rural development initiative, we do not and will not suggest providing new funds in this time of budgetary restraint.

Instead, the statement we have submitted for the record discusses three potential sources of fiscal year 1990 savings within the full committee's jurisdiction that could be directed toward a rural development proposal.

Such savings could range from approximately $500,000 million to as much as $2 billion in fiscal year 1990, although there may well be other areas within or outside the committee's jurisdiction which merit your consideration.

Finally, you have asked what role we would play in implementing any proposal which the subcommittee may develop. We would support and advocate a subcommittee proposal that provides investor-owned utilities an equal opportunity to assist rural economic development for our customers while we continue to strengthen our partnerships in rural America.

We believe that our support for a creative, flexible, and inclusive new Rural Development Program would be welcomed and supported by those that we serve.

We believe that the Nation's electric suppliers, all of the Nation's electric suppliers, whether they be investor-owned, whether they be REA's, rural electric co-ops, or municipal systems, all should be included and have an important role to play in the revitalization of rural America.

We want to be able to work with this committee in the development of a bill that incorporates and augments our current efforts to assist the over 30-million rural customers whom we serve.

Mr. Chairman, I appreciate you allowing me to be present and to testify and would be glad to respond to any of your questions.

[The prepared statement of Mr. Gressette appears at the conclusion of the hearing.]

Mr. ENGLISH. Thank you. I appreciate your testimony. That was a fine statement.

How would you envision the investor-owned utilities working with the co-ops as we try to knit together a system across the country? How would we put together that kind of system?

Mr. GRESSETTE. I think we already are involved with rural electric co-ops, certainly in identifying in our State, for example. I can't speak for areas other than our own, but we participate along with our State development board, which seeks to improve industrial development in our State in supplying to them specific sites, in supplying to them areas where water and sewer are available, and we would cooperate with the REA's in any effort certainly in our State to do that.

Mr. ENGLISH. So you already have a relationship in your State worked out?

Mr. GRESSETTE. We jointly work with the State development board, yes. It is not a formal relationship.

Mr. ENGLISH. But the State is the conduit, is that right?

Mr. GRESSETTE. Yes.

Mr. ENGLISH. So there is no direct relationship that has been worked out?

Mr. GRESSETTE. No, sir. That is not to say that in our State we don't compete for industrial customers, because we do.

Mr. ENGLISH. I recognize that. I am wondering, in this case, if we try to put together a system involving co-ops and the investor-owner utilities, obviously, we will need a working relationship that somehow is developed formally.

The question is, How you would handle such a working relationship and what kind of mechanism would be used to deal with such an arrangement? I guess that is something on which we are going to have to do some work.

Mr. **Gressette**. I think that could be addressed, but I think the critical issue is that in our State, for example, we have assigned territories and the co-ops do, and in our case, we serve predominantly rural customers and of course the co-ops do. So to exclude one or the other is my point.

Mr. **English**. I realize that.

Mr. **Gressette**. It would not be fair to the rural Americans who happen to live in the other service area.

Mr. **English**. As I see it, there is more than enough work for everybody to do. I don't think we will have a shortage of effort that is needed.

I would certainly expect that you all would play a major role and I want to make sure that your assistance is incorporated in any effort that we put forth here. Thank you.

Mr. **Gressette**. Thank you.

Mr. **English**. Mr. Tallon.

Mr. **Tallon**. Thank you, Mr. Chairman.

As I have indicated, Mr. Gressette, one of my primary concerns is in rural America, areas like we have in South Carolina certainly, areas that I represent in my congressional district. There is not a lot of opportunity for economic development if water and sewer is not there. It is absolutely essential.

We have had people, good people today testifying, ranging from councils of government to the Appalachian Regional Council. What about jurisdiction when we talk about—and we have touched on it a little bit—I think you said that the public-owned utilities probably serve about half of the rural people are investor-owned utilities in the State of South Carolina.

Are you thinking about jurisdiction being where you already serve or a co-op's jurisdiction being where it already serves and when we are talking about development of that water and sewer infrastructure not crosses over into another entity's jurisdiction? Maybe you could give me——

Mr. **Gressette**. Let me respond to you this way, Congressman Tallon. We are restricted by law in our State from participating in any service territory that is assigned to an electric co-op or to a service territory that is assigned to Duke Power Co., for example, or Carolina Power and Light.

So I don't see our company being involved in water and sewer activities in any area other than those in which we serve.

Now, as I indicated to you earlier, our company is extremely aware of the requirements for better water and better sewage treatment facilities, and in fact since January of this year, we have assisted five small towns with an average population of about 4,000 in obtaining better sewage and water facilities and we did that so that we would leverage the small amount of money that we were able to provide, approximately $65,000, $70,000, into $10,000 worth of improvements in these small towns and each project was a water or sewage treatment facility. In each instance, it enabled that small town to bring in another industry, to put in a nursing home, for example, or to construct housing for the elderly and those sorts of projects.

I think that investor-owned utilities have got to play a role in helping to improve the infrastructure throughout the country, and we would welcome the opportunity to work with small towns or rural communities in water and wastewater treatment activities.

Mr. **Tallon**. But you do believe that there certainly wouldn't be an incentive to go into an area that you were not providing the other essential service, electricity or natural gas?

Mr. **Gressette**. No, we would not be allowed to do that.

Mr. **Tallon**. You would not be allowed by what?

Mr. **Gressette**. By the statutes in the State of South Carolina, by the rules of our utility commission.

Mr. **Tallon**. Right.

Mr. **Gressette**. We cannot go into another area and become involved in that.

Mr. **Tallon**. Sometimes I have wondered about all the programs, USDA, Department of Commerce, and on and on, ADA, Farmers Home Administration, SBA, and you name it. If we took all the money and put it in one big pot, Mr. Chairman, and went back to mandating it be used for infrastructure improvement, and gave the money back to—we talk about local involvement—cities, communities, and the local counties involved, not to the States. I guess revenue sharing is not a word that I ought to be using, but that is, in my mind, the closest I can come to it.

I just wonder how effective that might be in using the Federal funds that are allocated for so many of these programs. That is just a comment I make. It is certainly something that I have given some thought to.

I really appreciate your being here and your testimony. Certainly the things that you have done in South Carolina have been a tremendous success story and we really appreciate it.

Mr. **Gressette**. I think the critical point is just that if we exclude investor-owned utilities from participating in whatever legislation this committee comes up with, then you are going to effectively exclude over half of rural America, and so we feel like that we need to be a player in whatever program you come up with, and to play alongside the REA, the Rural Electric Co-ops, and the municipalities.

So it is in a spirit of cooperation and in an effort to do something for the rural customers that all of the member companies of EEI serve that we appear here today.

Mr. **Tallon**. I am just curious, would our State statutes—I know you would not agree with this—but would an electric co-op not be able to go into an area you are serving to provide water and sewer or some sort of program they came up with?

Mr. **Gressette**. I don't know the answer to that question. I would assume that they could not.

Mr. **Tallon**. I am not sure. That is something we need to look at. I really appreciate you being here.

Mr. **Gressette**. Thank you for your time.

Mr. **English**. Thank you, Mr. Gressette.

We have a vote taking place. We will do that and then we will resume our testimony.

[Recess taken.]

Mr. **English**. The next witness is Mr. Jack C. Keen, president, National Rural Telecom Association, and chairman of the board, Western New Mexico Telephone Co.

Welcome. As we told our other witnesses, if you care to summarize your testimony, we will make sure that your written testimony is part of the record.

STATEMENT OF JACK C. KEEN, PRESIDENT, NATIONAL RURAL TELECOM ASSOCIATION, AND CHAIRMAN OF THE BOARD, WESTERN NEW MEXICO TELEPHONE CO.

Mr. **Keen**. I will try to summarize it as briefly as possible.

I appreciate being here. Glad to see you again.

Our company serves about 4,000 customers and nine exchanges out in New Mexico. It is an area about the size of Connecticut and Maryland put together.

I think we are a good example of why the REA programs are important. It costs a lot more to serve rural areas than it does heavily populated areas, and this company has less than 1½ customers per route mile, and about one access line for every 4-square miles of service territory.

Without the REA programs and the FCC universal service and the interstate rate averaging policies, we could not provide affordable service.

I am happy to be here today to discuss rural development. The REA borrowers have already been a part of the most successful Rural Development Program ever adopted, so we know what a big difference a good Government policy can make. We recognize, with the Federal budget restraints, we need to work together to find meaningful improvements that don't require substantial budget increases.

This subcommittee's careful approach or efforts to involve people in rural communities in designing the rural development legislation through comprehensive hearings assures a bill that meets real needs with real solutions.

We have some concerns with the Senate's rural development efforts. Despite the good intentions behind it, we fear that they would undermine rural development. We feel like that one of the problems is that there have been few hearings, if any, involving telecommunications, and we just feel like that there are some things there that might backfire on us.

Mr. Chairman, we agree with you that Congress must listen to those who live and work in rural America to ensure that Federal programs work in tandem with their State and local efforts.

NRTA believes that using time-tested Federal programs is a key to meaningful rural telecommunication development. We are on the threshold of a new information age. Technology offers the possibility of bringing rural areas the benefits from information rich society. More than ever we need strong REA telephone loan programs and coordinated congressional policies. Most, if not all, of the improvements rural areas need are already authorized under the act, but some improvements in REA programs are necessary.

Now, I have a list of those and I am not going to go all through that because it would take a good bit of time, but I might mention one or two of them. We feel that REA should provide funding for all of the act purposes that Congress set out in the beginning, and they have cut out a lot of the purposes that are in the act, but they don't allow it anymore, like office buildings and things like that.

There has been work done on the interest rates on the Rural Telephone Bank which you are well aware of, of course you led that, and that needs to be carried on out to the conclusion.

REA needs to beef up their technical staff where loan applications can be processed more quickly. Nine months into this fiscal year, REA had approved only 25 loans, which is only 15 percent of the minimum authorized loan levels for both insured and RTB programs. And where we have pending loan applications, over 600 million, so we need to get that speeded up.

They are trying to shorten up the amortization period, which is not in the—I don't know that that is going to do anything but raise telephone rates in rural areas. That is the only thing I can see it is going to accomplish. The dividend policy needs to be looked at pretty hard.

You know, if we make an investment in an affiliated company or do anything in a Rural Development Program or whatever, they treat that as distribution to stockholders and it would help if it were done differently.

They have also raised the interest coverage requirements to 125 percent. It is not required in the act, and we have always been used to using 100-percent coverage, and they haven't given any reason for disqualifying telephone systems, and that definitely will do it. So there are some things within the program that we don't need any new program but simply beef up the one we have got.

We can do a tremendous job for the rural areas. Telephone companies can help bring the two-way instructional programs to the schools. We can give the medical facilities a big boost with telelinks and all that, and we can do most of that within the existing REA Program.

I might mention we are talking about how to help schools and the health care. You know, my idea, one of the best ways to create new industry in rural America is with rest homes and things like that. You know, the elderly can be taken care of a lot more reasonably in a rural area than they can in town and most of them wouldn't want to be in town if they had anything to say about it.

A good rest home would bring in as much—as many jobs and help a rural area as much as a little factory or something, maybe a whole lot more. This is just an idea that I have had. You cannot have a rest home if you don't have a doctor, and a doctor is not going to be there if that little hospital has been closed down. So it all starts out with the program that we were hearing this morning from the doctor from AMA describing what was happening to the small hospitals in the way of the inequities that small hospitals have to put up with.

So it becomes a problem. And somehow maybe we can address that. It is not a very comforting feeling to know that you are 100 miles away from a hospital and that there is not a clinic there at least that can stabilize you and make you live long enough to get to that fine hospital 100 miles away.

So people in rural areas do have some problems like that, and I think that that is one of the things that we ought to be putting our thinking caps on and try to solve that problem. I don't know. I imagine in your district you have lost some hospitals. We have sure lost them in west Texas, and there are four or five county areas there where there is not a family practitioner that can deliver a baby. It has become a real problem, and I am sure that it is nationwide.

The telephone companies have a lot to do in the rural areas. We have managed to keep up fairly well with the technology. We have upgraded—we are about the same percentage, we are about 30 percent digital nationwide, and I think that is about the same as the Bell Companies, so we haven't been doing too bad, and there is a lot more to do, and the new technology and the new services and all are going to be quite a challenge to the small rural telephone companies, but I think most of them are ready to meet it, and as long as Congress can maintain and update the existing national commitment, I think we will have the job done.

I sure do thank you, Mr. Chairman, for the opportunity of testifying. If you have any questions, I will try to answer them.

Mr. ENGLISH. Thank you very much, Mr. Keen. We appreciate your testimony.

[The prepared statement of Mr. Keen appears at the conclusion of the hearing.]

Mr. ENGLISH. As has been pointed out, the law, as it stands today, pretty much tasks the rural telephone bank under REA to bring about modernization of communication systems throughout rural America as well as making communications available. It appears we have some differences between the administration and Congress with regard to intent of the law.

I know from my services as the former chairman of the Subcommittee on Government Operations that we focused a good deal on differences from legislative intent. We are going to be very interested in trying to identify points of contention that seem to exist. Recognizing that we have a one-vote difference that appears on most of the issues at the RTB, we will examine and look at the RTB issues very closely.

I, for one, will not hesitate to include in legislation—assuming the other members of this subcommittee agree with me—the corrections necessary to resolve differences in legislative intent. It gets to be a kind of a sad state when we get to the point that in order for the intent of Congress to be carried out, we have to overcome rules with laws.

It doesn't seem like you should have to pass a law to deal with a rule that someone has passed. However, that is what the Supreme Court tells us we have to do and many of us will be prepared to look at and examine the necessity of taking such action.

No question communications is going to play a major role in rural development. We are going to need the REA and RTB in fulfilling that role. They are an important resource to this country. Communications is going to be a critical link in bringing about improvements in education and health care.

Most critical of all, communications will be essential in bringing jobs to the small communities. Without a modern, up-to-date communications system, new business is just not feasible.

Mr. KEEN. There are several things that a business that is looking for a new location is going to look at, telecommunications. In other words, he is not talking about basic telephone service. Can we do all the fine things that can be done now, new technology. They look at health care for their employees, and it is something that telecommunications can really lead in, in the rural areas.

Mr. **English**. We wholeheartedly agree with you and we will be looking forward to working with you.

Mr. **Keen**. I am sure that all the telephone companies in rural areas are going to be looking forward to any way they can help and I certainly appreciate it.

Mr. **English**. Thank you.

Our next witness is Mr. Ray Scheppach, executive director of the National Governors' Association in Washington.

We want to thank you for appearing before us. Also, we want to thank you for your patience. It is very kind of you. I think that we have heard excellent testimony today. We look forward to your testimony as well, and welcome.

STATEMENT OF RAYMOND C. SCHEPPACH, EXECUTIVE DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION

Mr. **Scheppach**. Thank you, Mr. Chairman, for the opportunity to appear before you today to present the position of the National Governors' Association on rural development.

I would like to submit my full statement for the record and summarize it.

First, Mr. Chairman, you are correct in that there is still a major problem in rural America. All statistics indicate that unemployment is higher, wages are lower, and thus population is leaving the nonmetropolitan areas of many States. This is unfortunate for the residents of rural areas since the basic needs of adequate health care, good education, safe water, and adequate housing are not being met.

Such inequity between urban and rural America is not only a human problem but it is also a national economic problem. Past investments in rural infrastructure such as schools, roads, and libraries that are underutilized, and new investments in urban and suburban areas are required. This misallocation of resources will reap a heavy toll on our ability to stay competitive in the world economy over the next 10 to 15 years.

Let me outline basic provisions of potential legislation that would be endorsed by the Governors. First, what we believe you need is essentially a grant to States, not a block grant in traditional form, but a grant similar to the one currently being used in the Job Training Partnership Act, a grant to States, but States would be required to set up councils which would include the business community and local leaders to help make decisions on the allocation of those funds.

The money could be allocated to States based on a formula based on the income, earnings, unemployment and/or population in the nonmetropolitan populations of individual States.

Third, I know that Congress is normally concerned about administrative costs and we would be comfortable with you placing some limitation on administrative costs of 5 to 6 percent of a particular program so the maximum amount of money could be allocated down to development purposes. States in general would be willing, I think, to match 50 percent of the Federal money to get your money much higher leverage than you perhaps can through other vehicles.

I would add, however, that you should make it an option for individual States, if they are willing to put up the 50 percent, then I think you should be willing to put up the Federal share. If they are not, they should not be required to be part of the program.

We think that small amounts of money should go to States to help in the overall planning process and to operate the councils. The bulk of the money, however, should be required to be granted in or loaned down to local governments, regional councils, and others involved in rural development activities.

We have, over the last couple of years, done a lot of research analysis under a Kellogg and Ford Foundation grant where we have done a fairly in-depth analysis of about 40 very rapidly growing rural areas. One thing that is constant across all areas is that you have to have local leadership to lead the way.

Finally, I would say that you have to have a lot of flexibility in the types of things that the money could be used for. It may be in some States that it could be used for illiteracy programs. It may be in some States an infrastructure is necessary, and in a large number it is probably going to be seed capital for firms to locate in a particular area. So I think you need a lot of flexibility in terms of what the money is used for.

You might ask, Why do we believe a grant to States would be the most efficient approach? I would say essentially three reasons.

First, it is believed that States are in the best position to decide which areas in a State have the greatest potential for economic growth. I think they are in constant contact with the local leaders and I think they have a good sense of which particular areas in the State have the greatest potential.

Second, this is a lot harder to be done in terms of any allocation from the Federal Government directly to locals. States have already had a fairly good track record in rural development. Many States have programs in place and I think they have a better sense of what works and what doesn't work.

Third, and perhaps most important, is that any money that comes from the Federal Government must be used in conjunction with other services. One of the things that we have found in some of our analysis is that it is generally not one particular spending but a group or many services that are brought to a local community that are important in making it grow and develop.

States are the level of government that has the most widespread minimum of services that they can bring in to tailor to a local community. I am talking about expending such as the Job Training Partnership Act, education programs, seed capital programs, highways, technical assistance, et cetera.

The Federal Government, by putting some seed money through States to do this, would be able to leverage these other spending that would be done by States.

Mr. Chairman, the Nation's Governors look forward to working with you as you develop this critical legislation. I will be happy to answer any questions.

Mr. ENGLISH. Thank you very much.

[The prepared statement of Mr. Scheppach appears at the conclusion of the hearing.]

Mr. ENGLISH. Whenever we hear points regarding grant money to the States, the question that I, as an elected official on the Federal level, am tempted to ask is, Don't the States have the same taxing authority as the Federal Government? Aren't the Federal Government's budget problems as severe as a State's? Why should there be a grant program? Why shouldn't States raise their own money rather than having the Federal Government raise it for them?

Mr. SCHEPPACH. I think there is a responsibility on the Federal Government in terms of the allocation of resources across the Nation. I think that is more of a Federal responsibility.

I think, Medicaid and food stamps and some of those basic needs are more of a Federal responsibility.

I think it is also an efficiency question. I mean, if you are going to appropriate $2 to $4 million for rural development, the question you have to answer is, How do you get the most leverage for that money? How do you insure it does stimulate rural development?

I would say that having it come through States when it is combined with other services, I think, maximizes that potential.

Mr. ENGLISH. I guess I am struck by a conflict. There appears to be a conflict with what you are saying.

On one hand, Mr. Scheppach, you say that we are basically carrying out a social purpose and taking from the rich and giving to the poor. On the other hand, you are telling us that we need to leverage the money through matching funds.

So, what happens in the case when the poor do not have the matching funds to take advantage of the funds that have been taken from the rich to give to the poor.

I guess what I am wondering here is, How do we resolve that kind of conflict?

Mr. SCHEPPACH. Well, that is a problem.

You could set up a formula which essentially has a sliding scale on a match that the wealthier the State, the more they would have to put up. The poorer the State, the less they would have to put up.

You could do something like Medicaid. You could accommodate your problem by doing a sliding scale on the percentage.

Mr. ENGLISH. Some people think within the budget there has been allocated $300 million.

It is anticipated much less, if any, of that $300 million will be appropriated.

Some people think that none of the $300 million will go to rural development or, at least, not to anything contained in the rural development bill.

I think other people have other ideas about what they want to be done with that money. That being the case, basically we are talking about very little, if any, funds being available.

Now let's get to the real issue. The real question of having an effective rural development bill is more one of redesigning, redirecting programs already in existence to address the needs we have today. We need to try to pool those resources, target the resources and bring all those resources to bear on a specific area or a specific problem rather than continuing the hit-and-miss type of approach we have had in the past.

Mr. **Scheppach**. I think if you are talking about restructuring some programs, I would probably take it a step further than what you are talking about. I think what was mentioned before is why not consolidate Farmers Home, Small Business Administration, and some other grant programs?

I would agree with that. I think you would be a lot better off to put this money in and consolidate those particular programs and provide that back to States and essentially let States allocate it back to local authorities, then you get to leverage that money and allow States to combine it with the other menu of services.

I think it is inefficient in the current system where you have SBA and other programs shooting money into other authorities and bypassing State governments.

I agree with you, but I would collapse it all and reallocate it.

Mr. **English**. The further we move in that direction, the better off we are.

Mr. **Scheppach**. That is right.

Mr. **English**. Do you agree given the reality we are facing in regard to the so-called $300 million in the budget, the real benefits for rural development are likely to come from restructing current programs?

Mr. **Scheppach**. In terms of the other programs, you mean?

Mr. **English**. Yes.

Mr. **Scheppach**. Given the amount of money that is there, that is probably true.

Mr. **English**. Very good.

Well, I appreciate it. I think that your testimony has been very helpful to us. We will be looking forward to working with you.

Again, I want to apologize for the delay.

Mr. **Scheppach**. No problem.

Thank you, Mr. Chairman.

Mr. **English**. Thank you. I appreciate it.

This concludes our hearings on rural development here in Washington.

As I announced earlier, in August we will have regional hearings throughout the country so we will have input from local people and local groups. I think such local input will put us on the road toward a good rural development bill.

We appreciate the testimony of all the fine witnesses we heard. We will recess subject to the call of the Chair.

[Whereupon, at 2:35 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of Congressman Tom Coleman

Conservation, Credit and Rural Development Subcommittee

June 29, 1989

Congress must now act to rebuild rural America to assure the future of our rural communities, and the future of those Americans who live in rural communities.

While the national economy has experienced dramatic growth in the past eight years, there are pockets in America which have not shared in this growth. A disproportionate number of those are in rural areas.

That's why I and 16 other Members of Congress introduced the sweeping Rural Development Initiative: a plan to revitalize rural America and reorganize the U.S. Department of Agriculture to ensure more efficient management of rural development programs. Included in this package are programs to enhance and attract high technology industries to rural communities, provide guaranteed loans to assist in infrastructure improvements, enhance water systems in rural communities, and a program that would help rural health care facilities.

Our Rural Development Initiative recognizes that for our rural communities to share in America's growth, fundamental changes must be made. This fresh, new plan promotes economic diversification through improvements in the infrastructure and by encouraging economic development opportunities in our rural areas.

Parts of RDI nave already been enacted. In the past year, Project ACCESS, an educational program to benefit young people in rural schools, began as a pilot project in North Missouri. It was authorized in the Trade Bill. Agriculture Action Centers have been authorized to help smooth the transition to a new career for displaced farmers and workers. Legislation encouraging the use of rural vendors for government goods and

Page 2

services was enacted as a part of the Small Business Administration reauthorization last year.

This new RDI legislative package incorporates what we learned in a two-year General Accounting Office study I requested. That study concludes that today's federal spending in rural communities is unfocused. It also strengthens the call for a lead agency to coordinate a comprehensive plan for rural development.

RDI provides both the agency and the plan to do that. Our 1989 package would:

- **Reorganize the Department of Agriculture.**

The GAO report identifies 88 rural development programs currently overseen by 13 federal departments, commissions and agencies. Obviously, the first step would be to streamline existing rural assistance and development programs that are now scattered throughout the federal government.

By combining these scattered programs under the umbrella of a Rural Development Administration within the U.S. Department of Agriculture, we streamline the delivery of rural development activity. The Rural Development Administration would serve as an engine to power future rural development efforts.

- **Establish a guaranteed loan program to aid rural communities in rebuilding infrastructure and to encourage economic development activities in cooperation with state and local governments as well as private enterprises.**

A sound infrastructure is needed not only to meet existing demands in rural areas, but also to attract new businesses and economic development opportunities for the future. The legislative package would help rural communities in building a more modern transportation system, extending utilities and developing necessary waste and water treatment facilities. Additionally, rural communities could seek funds to help in rural economic development activities including technical assistance, rural community leadership development, economic development planning, and the development of rural private enterprises.

This legislation promotes the coordination of rural development activities by requiring the formation and adoption of state rural development program plans before projects could receive any federal assistance for rural development purposes.

- **Establish special Rural Technology and Training Centers.**

The legislation provides for a competitive grant program to establish Rural Technology and Training Centers which would develop new high technology products, processes and marketing techniques tailored for production in rural communities. Funding for the program would be $50 million in 1990.

The measure also amends current law to allow rural electric cooperatives to invest up to 15 percent of their equity in new business, business development centers, telecommunications and infrastructure improvements in rural communities.

- **Establish a Rural Development Database.**

This measure is a direct result of the GAO study of federal rural development activities. Under this provision, we would establish a national database for the collection and dissemination of rural development information.

The GAO clearly illustrated in its report the need for a single collection point for tracking and coordinating federal rural development efforts. There simply is a dearth of meaningful data regarding rural development. The legislation provides for single-source compilation and public dissemination of details on federal, as well as state and local, rural development programs. The development and maintenance of this data base will ensure the accessibility and availability of the information necessary to formulate clear and sound rural policy.

- **Encourage rural procurement.**

The RDI would amend the Office of Federal Procurement Policy Act to encourage procurement targets for rural small businesses.

- **Include a sense of the Congress resolution urging President Bush to revoke a Carter-era executive order which excludes rural communities from consideration in the location of some USDA facilities.**

Frankly, this Executive Order is contrary to a mandate given to the Secretary of Agriculture in the Rural Development Act of 1972. The 1972 mandate requires the Secretary to give first consideration to rural areas when selecting sites for USDA facilities.

Repealing the old executive makes good sense. The USDA for the most part is an agency that deals with rural areas of the country and yet some of its facilities are located in the central business districts of cities. There are many advantages of locating federal offices in rural areas and now is the time to realize them.

- **Help provide rural water facilities.**

The 1989 RDI proposal addresses lingering drought conditions, and recognizes that rural communities as well as individual farmers suffer from a prolonged drought. This legislation authorizes $75 million for emergency Farmers Home Administration water facility grants to drought-stricken rural communities. For these communities to retain jobs, let alone increase job opportunities, a ready water supply is necessary.

- **Provide reduced interest loans for rural health care facilities.**

This legislation reduces the interest rates charged by the Farmers Home Administration for health care and related facilities loans, basing the rates on local income data.

STATEMENT

of the

AMERICAN MEDICAL ASSOCIATION

to the

Subcommittee on Conservation, Credit
and Rural Development

Committee on Agriculture

U.S. House of Representatives

Presented by

T. Reginald Harris, M.D.

Health Care of Rural Americans

June 29, 1989

Good morning. I am T. Reginald Harris, M.D. I practice internal medicine in Shelby, North Carolina, a small town in the north central part of that state. I am a member of the American Medical Association's Council on Medical Service, which is the primary socioeconomic policy council of the AMA and the council that deals with the subject of rural health. Accompanying me is David L. Heidorn, J.D., of the Association's Department of Federal Legislation.

The AMA appreciates this invitation to share with the Subcommittee some of the Association's ideas about how to resolve the difficulties that keep too many Americans in rural areas from being able to meet their health care needs. As members of this Subcommittee are well aware, access to health care in rural areas can be inhibited by a number of different problems. In many instances, the problem is one of financial access. In others, the primary cause may be a lack of health manpower, facilities, transportation, or a lack of coordination between available resources. In still others, inadequate provider reimbursement levels may inhibit access to needed care.

The AMA believes that access to care in rural areas can be improved. However, the approaches to improvement are not easy, or inexpensive. In addition, they must be as diverse as the problems themselves are, and must be tailored to meet specific local needs and conditions. I would like to take this opportunity to highlight a few of the AMA's ideas, and emphasize that we are eager to work with this Subcommittee and Congress in further developing and refining solutions.

Restructuring Medicaid

A major need exists to increase the ability of many rural Americans to obtain needed health services. Rural areas were particularly hard hit by the economic decline in the early 1980s. A number of the industries on which the rural economy is largely dependent are still struggling to recover from that economic downturn. It follows that rural Americans affected by this economic decline still do not have income levels that allow them adequate access to health care and are dependent on state Medicaid programs for health care services.

However, unrealistically low levels of reimbursement, widely varying benefit levels, and stringent eligibility requirements under Medicaid are major causes of access problems in many rural areas, as well as across the country as a whole. The AMA believes that the time has come for a basic restructuring of the Medicaid program so that uniform adequate benefits are provided across all states, at adequate payment levels, to all persons with incomes below 100% of the poverty level (state-adjusted), and we have developed a proposal for such reform. (A copy of the AMA's proposal is attached.)

We fully recognize that a Medicaid expansion of this magnitude will result in a major increase in the number of eligible individuals and in program costs. However, society already bears a large part of these costs in other ways, including lost productivity and ultimately higher costs of care that results from postponing needed medical attention, and the burden of uncompensated care. The question is not whether, but rather how such costs can be met in a way that best preserves the health of the needy, while apportioning the load equitably over all sectors of the economy.

Accordingly, we intend to actively seek and support changes in the Medicaid program of this magnitude, and invite you to join us in supporting that effort.

Establishing State Risk Pools

As another important method to increase the financial base of support for rural health services, the AMA has urged that states establish health insurance risk pools as a means of assuring that adequate health insurance coverage is available at a reasonable cost to individuals with incomes above the poverty level. These pools should provide a specified level of adequate benefits, and premiums should be set at neither less than 110% nor more than 125% of the average premium for comparable group coverage by insurers in the state. States should provide publicly funded vouchers on a sliding scale to help those persons with incomes between 100% and 150% of the poverty level pay the premium for pool coverage. About five million people would qualify for such voucher assistance. Persons with incomes between 150% and 200% of the poverty level also should be eligible to purchase pool coverage, but at their own expense.

It is likely that the costs of risk pool coverage would not be met totally through enrollee premiums. In that event, risk pool costs in excess of premium income should be spread as widely as possible. The AMA strongly believes that states should be allowed to require all health care underwriting entities in the state -- including commercial carriers, non-profit medical service plans, health maintenance organizations, and self-insured plans -- to participate in the risk pool. By having all such entities participate, the pool would be assured a financial base sufficient to support the program and to achieve a fair sharing of the risks.

Unfortunately, states are prohibited by federal law -- the Employee Retirement Income Security Act (ERISA) -- from requiring that self-funded employee benefit plans participate in state risk pools. This prohibition creates strong barriers to effective operation of state risk pools since self-insured plans write over half of the employee group health insurance business. While fifteen states currently have risk pools, these existing pools are more limited than the AMA proposal.

In order to achieve broad participation in state risk pools, the AMA has developed draft federal legislation that would amend ERISA to allow states to regulate self-insured plans in the same manner that other health insurance plans are regulated. Self-insured plans would thus have to participate in state risk pools. The AMA has also developed draft federal legislation that would make available the deductibility of health insurance premiums only to employers that either participate in the risk pool directly, if self-insured, or that purchase group health insurance coverage from an entity that participates in the risk pool.

Providing Health Insurance to Employees

Of the approximately 37 million U.S. citizens who are currently uninsured, about 26 million are estimated to be workers or their dependents. As the third piece in an overall approach to protecting the uninsured, the AMA's House of Delegates, at its Annual Meeting last week, endorsed the concept of a phased-in requirement that employers provide health insurance coverage for their full-time employees, limited initially to larger employers, with coverage expanding over several years. Included in the concept would be a program of diminishing tax credits or other incentives to avoid adverse effects on employers.

Financing Long-Term Care

The AMA has recommended a number of steps to improve the financing of long-term care (LTC) expenses, which can be catastrophic for many individuals. We support extension of present Medicaid LTC benefits to all individuals below the poverty level as well as the establishment of a program that would provide incentives to encourage the purchase of private LTC insurance coverage to allow individuals to protect assets that they have spent a lifetime acquiring, such as a home.

The insurance coverage envisioned would provide LTC benefits equal to the amount of asset protection chosen by the individual. When those benefits are exhausted, any unprotected assets would be required to be spent down. Once the unprotected assets are exhausted, a qualified individual would become eligible for LTC benefits under Medicaid. Tax deductions to encourage family care giving would also be provided. (A copy of the AMA's proposal is attached.)

Ensuring Adequate Manpower

In addition to improving the financial accessibility of care, the AMA believes a number of steps can be taken to help improve the supply and distribution of manpower in rural areas as well. The AMA supports continuation of the National Health Service Corps as a method for extending medical care to rural shortage areas. To help effectuate the work of the Corps, the AMA has, since 1973, sponsored Project USA, a program which recruits short-term physician replacements for Corps and Indian Health Service physicians who need time off for continuing education or other purposes.

In addition, the AMA supports forgiveness of educational loans and other financial inducements for health care providers who choose to practice in shortage areas. Over the longer term, we believe that medical and other health professional schools should give increased emphasis to attracting more of the type of students who are motivated to care for underserved populations, and should provide more opportunities for exposure to rural practice as a part of the educational experience. To that end, the AMA sponsors research on the effect of educational programs to enhance students' choice of rural practice, and currently over 100 medical schools indicate that they have such programs.

The AMA also provides physicians with the demographic and market data to help them make more informed practice location decisions, and has developed information on ways in which medical staffs of rural hospitals can obtain high-quality, cost-effective continuing medical education programs, so that professional stimulation and attractiveness in rural practice locales can be maintained.

Improving PROs

The AMA has been concerned that some standards and practices of statewide Peer Review Organizations (PRO) may result in a disproportionate number of rural physicians being unfairly sanctioned, and has worked with Congress and the PRO program to modify such practices. One result of this effort is that PROs are now required to use physician reviewers who practice in settings similar to those of the physicians who are being reviewed. With the passage of the Hall Amendments (P.L. 100-203), the Association has been able to achieve appropriate due process protections for rural physicians who are being monitored or reviewed by a PRO.

Establishing Equitable Medicare Reimbursement

Inadequate levels of Medicare payment to physicians and hospitals are a major impediment to access in rural areas -- particularly given the higher proportion of Medicare beneficiaries in rural areas.

With regard to physician payment, in its report to Congress last year the Physician Payment Review Commission found substantial variation in Medicare prevailing charge levels between the 240 Medicare charge localities, even after adjusting for differences in the costs of practice. Variation that cannot be explained by cost of practice differences can jeopardize access to care and threaten beneficiary financial protections in areas where prevailing charges are low, and can impact with special severity on rural areas which are already hard-pressed to retain an adequate supply of physicians.

Inadequate levels of physician reimbursement in many rural areas stem from the constraining effects of the Medicare Economic Index applied to 1971 charges, coupled with subsequent limits on the charges of non-participating physicians, which have not allowed physicians' reimbursement and fees to rise to reflect relative changes in the costs of providing care. In all areas where the costs of practice have risen more rapidly, the gap between Medicare payment for services and the costs of providing those services has progressively widened.

As the most equitable approach to establishing physician payment levels, the AMA believes that Medicare's current method of physician payment should be replaced with an indemnity fee schedule, with indemnity amounts based on a relative value scale (RVS) that reflects resource costs. Since 1986, the AMA has been working as a subcontractor to Harvard University in a HCFA-financed study to develop such a resource-based RVS.

The study was undertaken in response to a Congressional mandate to the Secretary of HHS to develop such an RVS by July 1989, and the final report of the first phase of the Harvard study was releasedthis past September. The AMA and other groups have identified a number of refinements and modifications needed in the Harvard results before it could serve as the basis for an indemnity fee schedule under Medicare, and AMA will continue as subcontractor to Harvard in this second phase of the study. (A copy of AMA's policy on the relative value scale is attached.)

The Association believes that the current Harvard study and its data -- when sufficiently expanded, corrected and refined -- would provide an acceptable basis for a Medicare indemnity payment system. We also believe that the indemnity payments under such a system should reflect only valid and demonstrable differences in practice costs, including professional liability insurance premiums. Finally, we believe that a method of further adjusting payment levels to remedy demonstrated access problems in specific areas should be developed.

Mr. Chairman, we must, at this time, raise our concerns about a proposal adopted by the Ways and Means Health Subcommittee that would link conversion to an RBRVS with a rationing device called expenditure targets. We are especially concerned that such a program would severely impact on services in rural areas similar to the dislocations caused rural hospitals because of the implementation of the DRG system.

Establishing an Interim Approach to Fair Medicare Reimbursement

While an RVS-based indemnity payment system represents the best ultimate approach to physician payment reform, the AMA recognizes that even initial implementation of such a system may be some time away. Accordingly, the AMA has studied possible interim approaches to redressing inequities in rural physician payment under the present system, including proposals to limit the range of geographic variation in prevailing charge levels, while attempting to avoid major movement of charges in a direction opposite to that which would occur under a resource-based RVS.

The AMA's House of Delegates, again just last week at its Annual Meeting, supported a policy position that the Association seek the legislative changes that would be necessary to establish a floor on Medicare prevailing charges for all services at 80% of the national average prevailing charge for those services. This approach would permit Medicare allowed charges to increase immediately in areas where they are constrained by prevailing charges lower than 80% of the national average.

Simulations developed by our Center for Health Policy Research indicate that such a change would increase net Federal Part B outlays by a little less than 4 percent, or $482 million. (Net federal outlays are defined as federal budget expenditures net of the revenue offset produced by maintaining Part B premiums at 25% of Part B expenditures.)

Congress has already acknowledged the need to address access problems through increasing the prevailing charge. The 1987 Omnibus Budget Reconciliation Act established a prevailing charge floor for primary care services at 50% of the average prevailing charge levels for participating physicians in all Medicare charge localities. Given that problems of access to other than primary care services also exist, the AMA believes that a floor should be established for all services, not only for primary care services.

Providing Adequate Medicare Reimbursement to Hospitals

With respect to hospitals, the AMA is concerned that inadequate Medicare payments under the PPS could jeopardize the ability of rural hospitals to provide quality patient care to Medicare and non-Medicare patients alike. Over the past few years, we have supported specific legislative provisions to improve the economic outlook for many rural hospitals, dealing with such areas as a revised Gross Salary Wage Index, disproportionate share adjustments, more liberal criteria for hospitals to qualify as rural referral centers, additional payments to sole community hospitals, and separate outlier pools for rural hospitals.

We strongly supported the 1988 recommendation of the Prospective Payment Assessment Commission (ProPAC), that the PPS update factor for Fiscal Year 1989 be set at 3.8 percent for urban hospitals and 4.6 percent for rural hospitals. ProPAC's recommended increases were greater than those actually allowed by Congress in the Omnibus Budget Reconciliation Act of 1987.

The Department of Health and Human Services and Congress should follow the recommendations of ProPAC, the expert panel established by Congress to recommend appropriate updates in the PPS. Adequate hospital reimbursement is essential to ensure that Medicare beneficiaries continue to receive high quality care.

Conclusion

Mr. Chairman, let me conclude by reiterating the AMA's strong and ongoing commitment to improving access to needed health care for our rural citizens. We will be happy to assist the Subcommittee in any further way as you continue to consider solutions to the variety of problems that too often make such access difficult.

3093s

REPORT OF THE BOARD OF TRUSTEES

Report: UU
(A-88)

Subject: Medicaid - Towards Reforming the Program

Presented by: Alan R. Nelson, M.D., Chairman

Referred to: Reference Committee A
(Clarence H. Denser, Jr., M.D., Chairman)

Background and Goals

At the 1987 Annual Meeting, Recommendation 153 of the HPA was referred to the Board of Trustees. This recommendation states:

> Medicaid should be revised to establish national standards that result in uniform eligibility, benefits and adequate payment mechanisms for services across jurisdictions.

The Board of Trustees requested the Councils on Medical Service and Legislation to study this issue and work with the Board in development of this report.

The Councils and the Board have extensively analyzed the various approaches for improving Medicaid coverage for those in need. This report presents background information and policy recommendations developed by the Councils regarding the Medicaid program. During their deliberations, the Councils also examined the broader picture of the "uninsured." The AMA has established policy favoring the enactment of state risk pools for the medically uninsurable and the premium indigent, including voucher assistance for lower-income segments of the latter group. A summary of this policy is provided in CMS Report A, also before the House of Delegates at this meeting. The Councils and Board will continue to study approaches for providing health expense protection for the uninsured above the poverty level and will report new developments to the House. This current report addresses the portion of the uninsured population below poverty.

In developing this report, the Councils have utilized expert actuarial analysis which recognized the federal government's legitimate role in assuring needed medical care benefits for the needy. The report recognizes that states may wish to cover additional populations and benefits at their sole expense.

Past House Action: A-87:139

- nine states have fewer than 25 Medicaid recipients for every 100 residents below the federal poverty level, with ranges going from 17/100 to 104/100;

- in 1986, to be eligible for Medicaid under AFDC (Aid to Families with Dependent Children) criteria, a family of three could have a maximum annual income ranging from $1,416 in Alabama to $8,800 in Alaska;

- in 1986, to be eligible for Medicaid under SSI (Supplemental Security Income), an individual could have maximum income ranging from $4,032 in 22 states to $7,260 in Alaska;

- wide variations in benefits (e.g., 10 states place limits on the number of hospital days of care allowed, 11 states place limits on the number of physician office visits allowed per year); and

- wide variations in payment levels (e.g., 1985 hospital payments ranged from an average of $160/day in Nebraska to $533/day in the District of Columbia; payments for a physician's brief office exam ranged from $6.00 in New Hampshire to $28.41 in Alaska).

Dimensions of Uninsured Poor

Based on various sources, including HCFA information and extensive information provided by the actuarial firm of Gordon R. Trapnell Consulting Actuaries, Ltd., the consulting firm retained by the AMA for the Medicaid project, data indicate that:

- there are about 20 million persons with below poverty annual income who are not currently covered by Medicaid because they do not meet categorical or income eligibility requirements; and

- there are about an additional 7 million persons who are in poverty for some portion of the year (but not on an annual basis) and are not currently covered by the Medicaid program.

Thus, reforming the Medicaid program to provide acute care coverage for all persons below 100% of the poverty level, while maintaining existing eligibility requirements for long-term care coverage, would have the following impact:

- increase total Medicaid spending from a projected $52 billion in 1988 under current law to $76 billion in that year (acute care spending would constitute $32 billion and $56 billion respectively); and

- increase the number of persons eligible for Medicaid acute care benefits from a projected 19 million persons in 1988 to a projected 46 million persons in that year.

- determination of state poverty level income in the actuarial calculations has been adjusted by the following factor:

$$\frac{\text{state per capita income}}{\text{national per capita income}} \times \text{federal poverty level} = \text{state level}$$

Uniform Financial Eligibility Formula

Use of the state cost-of-living modifier as described above is essential to assuring that Medicaid eligibility reflects the economic realities in the various states. At the same time, using one national formula by which eligibility will be determined in the various states will eliminate state discretion in setting the economic level of eligibility. This will avoid perpetuating the widespread inequities existing across state boundaries today.

Table 1 illustrates the effect of using this cost-of-living modifier by comparing the total cost of Medicaid in selected states under a 100% of poverty standard which is uniform nation-wide versus a standard adjusted by that state's cost-of-living modifier.

Table 1: ESTIMATED TOTAL CARE MEDICAID SPENDING IN FY1988
UNDER UNIFORM VS. STATE-ADJUSTED 100% OF POVERTY
ELIGIBILITY LEVELS: SELECTED STATES
(Millions of Dollars)

	Uniform Level	State-Adjusted Level
Alabama	$944	$847
California	$7559	$7992
New York	$12274	$13312
Tennessee	$1540	$1370
W. Virginia	$365	$313

As shown in this table, less affluent states such as Alabama, Tennessee, and West Virginia will experience less of a spending increase under a cost-of-living-adjusted eligibility level, while more affluent states such as California and New York will spend more under such an adjusted eligibility level.

Uniform Benefits

The AMA proposed uniform Medicaid benefit package would extend the current federally mandated basic benefits requirements to cover all medically necessary physician and hospital services. Specifically, the benefit package would include:

(4) the creation of adequate payment levels to assure broad access to care; and

(5) the adoption of HPA Recommendation 153.

Conclusion

The Board and Councils believe that the expansion of the Medicaid program as outlined in this report will address the needs of the uninsured with incomes below poverty. Further efforts to implement the Association's risk pool policy for those uninsured above poverty, as well as further study of additional ways to assist that group will continue. The Councils and the Board are currently studying potential reforms in the long-term care provisions of the Medicaid program as part of their overall study of ways to improve both public and private long-term financing mechanisms for individuals at all economic levels.

It is well recognized that the societal costs in addressing the needs of the uninsured are large. The costs of leaving the problem unresolved, however, are and will continue to be even larger.

State	Thousands of Eligibles		Millions of Dollars	
	Present Law	100% Poverty*	Present Law	100% Poverty*
NC	336	953	850	1271
ND	37	121	173	275
NE	91	258	235	377
NH	31	93	154	223
NJ	529	1162	1470	2215
NM	100	307	241	397
NV	25	88	99	175
NY	2021	4129	10123	13312
OH	885	2009	2474	3735
OK	190	499	519	655
OR	125	411	356	626
PA	918	2137	2410	3312
RI	82	168	344	417
SC	247	634	467	706
SD	36	123	139	195
TN	344	1002	870	1370
TX	764	2369	2205	3825
UT	74	245	184	334
VA	311	896	797	1293
VT	45	112	113	157
WA	230	716	788	1189
WI	452	965	1361	1747
WV	175	410	240	313
WY	16	63	45	205

REPORT OF THE BOARD OF TRUSTEES

Report: X
(I-88)

Subject: Long-Term Care Financing

Presented by: John J. Ring, MD, Chairman

Referred to: Reference Committee G
(Robert H. Shackelford, MD, Chairman)

The Association has in the past several years developed and put forward major new proposals to restructure the current Medicare and Medicaid programs and to address the problems of the uninsured. The Association's efforts in these initiatives have been directed toward improving access to needed care and placing the programs on a firm financial and a rational operational basis for the future. Each proposal requires significant new funding that the AMA has argued is necessary to carry out this nation's commitment to health care.

Long-term care (LTC) is a fourth area of health-related concerns of national proportion for which the Association is committed to developing a comprehensive, practical solution in order to actively influence the ongoing legislative and public discourse concerning the financing and delivery of LTC services. Public concern about family impoverishment and dissipation of assets after a lifetime of work is increasing pressure for a public response to these problems.

The Council on Legislation and the Council on Medical Service have reviewed a variety of alternative directions that the Association can take in developing an LTC solution. A critical factor that the Councils have taken into consideration is the fast-moving congressional activity that is likely to result in early consideration of an LTC program.

As a result, in large part, of Rep. Claude Pepper's efforts for consideration of an LTC home health care bill (HR 2762) in June 1988 and the creation of an acute care catastrophic benefit under Medicare (PL 100-360) in July 1988, a variety of LTC legislative proposals have been introduced in the 100th Congress. These have included comprehensive programs to set up whole new agencies to oversee the provision of LTC benefits, usually through Medicare; programs that would meld encouragement for the LTC insurance market with expansion of the LTC benefit under either the Medicare or Medicaid program; and programs to establish voluntary LTC policy certification with minimal federal involvement and no federal support.

Following the procedural defeat of Representative Pepper's home health care legislation, congressional leaders vowed to return to the LTC issue in the 101st Congress beginning next year. It is expected that the Association will be faced with congressional hearings on this issue early in the 101st Congress. The Board and the Councils believe that the AMA should have a program established before debate on LTC again begins in the next Congress.

An AMA proposal for the financing and delivery of LTC services must follow the general principles on LTC set out in Board of Trustees Report O (A-88). These principles are sound and call for a LTC financing system that

- encourages privately prefunded LTC financing to the extent that personal income permits;
- assures access to needed services when personal resources are inadequate to finance care;
- protects personal autonomy and responsibility in the selection of LTC providers;
- prevents impoverishment of the individual or family in the face of extended or catastrophic LTC costs;
- covers needed services in a timely, coordinated manner in the least restrictive setting appropriate to the health care needs of the individual;
- coordinates benefits across LTC financing programs; and
- promotes family care giving.

These principles reflect a belief that the best approach to LTC financing is one based on the concept that neither the private nor the public sector can, by itself, completely respond to the growing demands of LTC.

To "encourage privately prefunded LTC financing to the extent personal income permits," a LTC program should encourage individuals to purchase LTC insurance as a method of protecting assets, often including a home, that they have worked throughout a lifetime to accumulate. People should not be forced to spend these assets down into poverty before LTC benefits are available to them, which is now the case.

Asset protection can be accomplished through a program whereby individuals would purchase LTC insurance, and, to the extent of the dollar value of the benefits provided by this insurance, such individuals would be able to protect the same dollar value level of assets. Once the LTC insurance benefits and unprotected assets are used, eligible individuals would receive LTC benefits under the Medicaid program.

This program would have the advantage of providing the insurance industry with specific dollar amount coverages in a market where benefits are now difficult to determine actuarially. It would also encourage individuals, or their families, to protect assets that families want to keep or pass on. In addition, a program that encourages this individual choice bypasses the difficult argument of setting fair spend-down requirements to be eligible for publicly funded LTC benefits.

This kind of program has been introduced in Congress by Rep. Barbara Kennelly (D-Conn.) as the "Partnership for Long-Term Care Act (HR 4631). Representative Kennelly has termed her proposal an "asset-waiver" program. The state of Connecticut has also proposed such a program to finance LTC on the state level.

An effective LTC program must also provide tax incentives to ensure that a LTC insurance market would be established, including treating LTC policies the same as health and accident policies are now treated, allowing deductibility and the exclusion of benefits from income under the Internal Revenue Code, and allowing nontaxable distributions from Individual Retirement Accounts (IRAs) and employee trusts or annuities to pay for LTC insurance and services. The establishment of a LTC insurance market would have the effect of (1) reducing government expenditures for social services by reducing the incentive to transfer assets in order to qualify for Medicaid and, thus, (2) free up monies for medical care under the Medicaid program.

An adequate LTC proposal must also "assure access to needed services when personal resources are inadequate to finance care." Consistent with current AMA policy for Medicaid, LTC benefits should be provided to all individuals with incomes up to 100% of the poverty level. Uniform eligibility is consistent with the dictates of Board of Trustees Report MM (A-86) on reforming the Medicare program and Board of Trustees Report UU (A-88) on reforming the Medicaid program. Individuals with incomes above the poverty level but with incomes that would not allow them to purchase LTC insurance on their own should be provided with sliding-scale subsidies based on income to purchase LTC insurance.

To promote family care giving, a program should provide a substantial tax deduction for those who take care of family members who would otherwise be eligible for care in LTC facilities.

Any program for LTC financing will require new sources of revenue. The Board and Councils believe that LTC financing should be separate and apart from medical care financing. Medical care programs should not be confused with social care programs. LTC is far different and must not take precedence over the provision of basic medical care through the established Medicare and Medicaid programs.

New revenue sources for LTC should be broadly based. The Board and Councils are concerned with proposed funding mechanisms contained in legislative proposals that call for the elimination of the $45,000 cap on income subject to the 1.45% Health Insurance tax. This is not the best source of revenue to fund a new LTC program. General revenue would be the most appropriate source of financing for a LTC program. If legislation is enacted to remove the existing cap, such legislation must make it clear that the new tax is separate from the Health Insurance tax and should be entitled a separate "Long-Term Care Tax."

The Board of Trustees recommends adoption of the following statement of policy:

A program to finance long-term care should

- provide LTC coverage through Medicaid for all individuals with income below 100% of the poverty level;
- provide sliding scale subsidies for the purchase of LTC coverage for individuals with income between 100-200% of the poverty level;
- encourage private sector LTC coverage through an asset protection program as described above;
- create tax incentives to allow individuals to deduct the cost of LTC coverage from income tax, to treat employer-provided coverage in the same fashion as health insurance coverage, and to allow tax-free withdrawals from IRAs and Employee Trusts for payment of LTC insurance premiums and expenses; and
- authorize a tax deduction or credit to encourage family care giving.

AMA POLICY ON THE HARVARD RESOURCE-BASED RELATIVE VALUE SCALE AND RELATED ISSUES

A SUMMARY OF AMERICAN MEDICAL ASSOCIATION BOARD OF TRUSTEES REPORT AA (I-88)

On December 6, 1988, after almost two days of discussion at its Interim Meeting in Dallas, the American Medical Association (AMA) House of Delegates unanimously adopted Board of Trustees Report AA on the Harvard University resource-based relative value scale (RBRVS) study. Board Report AA states the AMA's position on 18 points related to the RBRVS study and its potential implementation.

The RBRVS is one of a growing list of Medicare physician payment "reforms" considered by Congress and the Administration in the 1980s. Revisions to the current "customary, prevailing, and reasonable" charge system (CPR) that have already been enacted, including payment cuts for procedures deemed by Congress to be "overpriced" and limits on physicians' fees, have made the status quo untenable. Proposed alternatives, such as physician DRGs and widespread capitation, pose serious threats to the ability of physicians to continue providing high quality, accessible health care for their Medicare patients.

The Harvard study was initiated in response to a congressional mandate to the secretary of Health and Human Services (HHS) to develop an RVS based on the resource costs of providing physician services and is funded by the Health Care Financing Administration (HCFA). The report of the first phase of the study, which was submitted to HCFA in September 1988, covered 18 specialties. The second phase will extend the RBRVS to an additional 15 specialties. The secretary is required to report back to Congress in July 1989. In its 1988 Report to Congress, the Physician Payment Review Commission (PPRC) stated its support for use of an RBRVS, but not specifically the Harvard RBRVS, to reform Medicare's physician payment system. The PPRC's 1989 Report to Congress, due in March, will contain detailed recommendations on an RBRVS and related issues.

The forthcoming PPRC and HHS reports could lead Congress to enact legislation this year or next directing initial implementation of an RVS-based payment system for 1991 or 1992. The policies adopted by the AMA in Board Report AA clearly state Medicine's position on the critical payment issues. They provide the framework from which the profession can work, over the coming months, to shape the ultimate design of a new system.

The Harvard Study

An RVS is a list of physician services ranked according to "value" in nonmonetary units. In an RVS based on resource costs, relative values are determined by the relative costs of the resources required to provide physician services. Harvard's method of measuring resource costs includes three basic inputs: (1) the physician's work involved before, during, and after providing a service; (2) relative specialty practice costs; and (3) opportunity costs of specialty training. Physician work is further defined as comprising time, technical skill and physical effort, mental effort and judgement, and stress. The core of Harvard's methodology is a national survey of a randomly-selected sample of practicing physicians in each specialty to determine the relative work entailed in the services provided by physicians in that specialty.

AMERICAN MEDICAL ASSOCIATION
Division of Health Programs
Department of Health Care Financing

The AMA has been a subcontractor to Harvard since 1986, and is continuing as a subcontractor in the second phase of the original study, which is currently underway. Association efforts are centered around ensuring inclusion of the experiences of practicing physicians in the study by: furnishing advice on the study's methods; working with the national medical specialty societies to secure nominations for the study's physician consultant groups; providing data from the AMA's Socioeconomic Monitoring System; and supplying a nationally representative sample of physicians from the AMA Physician Masterfile.

The final report of the first phase of the Harvard study was released on September 28, 1988. Simultaneous with its submission to HCFA, the study's methods and results were published in the *New England Journal of Medicine*. One month later, the October 28, 1988 issue of the *Journal of the American Medical Association* was devoted exclusively to the Harvard study. Findings from the study and speculation about its implementation also received considerable attention in the media.

Following its release, the AMA distributed copies of the Harvard report to all of the national medical specialty societies and state medical associations. Subsequently, the Board of Trustees:

- conducted a technical assessment of the study's methods and results;
- established a special task force to review the RBRVS and related issues; and
- on November 13, convened a meeting of representatives of the state and county associations and national specialty societies to discuss these issues.

Report AA presents the results of the Board's evaluation of the Harvard study and discusses potential use of the Harvard RBRVS in a new Medicare physician payment system. Findings and comments from the Board's assessment, the task force, and the November meeting were reflected in the recommendations contained in Report AA. Also, in response to the testimony of over 100 of the physicians attending the special one-and-a-half-day Reference Committee hearing held prior to the House of Delegates action on the Board Report, a number of amendments to the Board's original recommendations were adopted by the House.

After considerable discussion, the House voted unanimously to adopt Report AA, as amended, and also called for the Board of Trustees to report back on further RBRVS developments at the June 1989 Annual Meeting, or sooner if necessary. The Reference Committee was careful to point out that the House of Delegates action concerned Board of Trustees Report AA, *not* Harvard's report.

Three Central Policy Statements

The policy agenda outlined in Report AA states three basic positions:

1. **Support for an Indemnity Payment System**

   The first policy statement is a reaffirmation of AMA support for adoption of a fair and equitable Medicare indemnity payment schedule, based on an appropriate RBRVS and monetary conversion factor, under which physicians would determine their fees and Medicare would establish its payments.

2. **The Harvard Study**

   The second position states that the current Harvard RBRVS study and data, when sufficiently expanded, corrected, and refined, would provide an acceptable basis for such a payment system.

The Board's assessment of the Harvard study, as well as the testimony of physicians who attended the meetings and hearings on the RBRVS and Report AA, identified a number of areas in the study requiring technical refinement or correction. The RBRVS must also be expanded to additional services and specialties. Much of this work is currently underway at Harvard as part of the second phase of the study.

3. **Needed RVS Efforts**

The third policy statement calls for the AMA to work with Harvard, the specialty societies, the PPRC, HCFA, Congress, and others to ensure the technical adequacy of the final RBRVS. This recommendation directs particular attention to:

- the restudy of specialties whose RBRVS data have significant, documented technical deficiencies;
- fundamental improvement of the treatment of practice costs;
- revision, refinement, and expansion of pre- and post-service work measurement; and
- expansion and validation of the extrapolation method.

The AMA will also communicate additional concerns that may be identified to Harvard and other appropriate organizations so that these concerns may be properly addressed, and the AMA will work to ensure validation of the results of the additional study.

Together, these three policies form the core of the AMA's position on Medicare physician payment reform. The Association will seek to move Medicare away from the complex and arbitrary regulations that have characterized the current payment system toward an approach based on the resource costs of providing physician services. The current Harvard RBRVS is the starting point for developing such a system, and the AMA will work with others involved in payment reform to ensure completion of an acceptable final RBRVS for use in a new Medicare payment schedule.

In addition to policy on an acceptable basis for the schedule of payments, a new payment system will require policy on other important design features. The AMA positions on key implementation issues are stated in Board Report AA and are summarized briefly below.

Balance Billing

Retention of the ability to bill patients for the difference between the amount that Medicare pays and the physician's actual charge for services provided to Medicare patients ("balance billing") remains a cornerstone of AMA policy. Report AA:

- reaffirms the AMA's opposition to elimination of balance billing and opposition to continuation of Medicare maximum allowable actual charge (MAAC) limits;
- calls for enhanced physician discussion of fees with patients as an explicit objective of a Medicare indemnity payment system; and
- recommends expanded support for state and county medical society-initiated voluntary assignment programs for low-income beneficiaries.

Report AA clearly distinguishes between an RBRVS-based indemnity payment system and a fixed fee schedule. The Harvard RBRVS is based on the average relative resource costs required to deliver a service to the average patient. Balance billing must be preserved in order to recognize differences between physicians in quality, experience and practice costs, as well as differences between patients in severity of illness and access to care. It is the position of the AMA that it is impossible to develop a fixed fee schedule that could either account for all of these factors with the necessary precision or assure Medicare patients continued access to their physicians of choice.

Transition

A transition period reduces the change in the payment system in any given year. The AMA supports phasing in any new payment system in order to minimize disruption in the delivery of physician services. Report AA recommends that the new Medicare payment system be implemented using a progressive blend of RVS-based payments and CPR payments. It also recommends that the specific length of the transition period be chosen in order to appropriately minimize both disruption for patients and the complexity of the process.

Geographic Payment Variations

The RBRVS, of course, measures national average resource costs; geographic payment variations would arise from the use of geographic multipliers to the monetary conversion factor. Report AA reaffirms the AMA's current policy that such payment variations should reflect valid and demonstrable geographic differences in practice costs, particularly the cost of professional liability insurance. Based on data availability, payment localities in the new system could consist of a combination of regions, states, and localities within states. The report also recommends that payments be adjusted where necessary to remedy access problems in specific geographic areas, and that geographic differentials and specialty differentials be addressed simultaneously.

Specialty Differentials

A specialty differential is a difference in the amount paid to different specialists for services designated by the same procedure code. Whereas specialty differentials in the current system are based on differences in charging patterns among specialties, specialty differentials in an RBRVS-based payment system could arise from differences among specialties in either the level of work, practice costs, or training costs required to deliver a service. The current Harvard data do not [illegible] provide a solid basis for determining whether and for what services such differentials might apply.

The AMA adopted the general principle that for services that meet two criteria, an RBRVS-based payment schedule should include specialty differentials: when resource costs for a particular CPT-coded service are substantially different across specialties, and when the procedure codes are not sufficiently precise to differentiate the physician work of a service across specialties. For services that meet these criteria, the AMA's position is that the differential payment should apply both when the services that specialists provide are within their specialty and when these same services are provided as general or primary care. AMA policy further states that, where differentials exist, designation of specialists should avoid dependence on rigid criteria, such as board certification. Instead, general national guidelines should be established, with carriers having sufficient flexibility to respond to local conditions.

Other Implementation Issues

In two policy statements, Report AA affirms the AMA's strong opposition to use of any new Medicare payment system to introduce cuts, freezes, or enforced targets for Medicare expenditures for physician services aimed at producing federal budget savings. The Association believes that expenditure targets will lead to rationing of care for Medicare patients, and instead supports constructive approaches to enhancing quality and appropriateness of care.

In updating the RBRVS and conversion factor, the House adopted the position that only one organization, the American Medical Association, has the resources, experience, and umbrella structure necessary to represent the collective interests of Medicine. This recommendation calls for the AMA to seek such a role in whatever update process is selected, and to do so in a manner that enables full participation from all of organized medicine, especially the national medical specialty societies.

Conclusion

Report AA will not be the final AMA report on the RBRVS and its implementation. In adopting Report AA, the AMA has adopted positions on a number of the key policy issues in the development of a new Medicare physician payment system. Adoption of this report will enable the American Medical Association and its leadership to continue to play a central role in policy debates on Medicare physician payment. At the same time, the report explicitly states that much work is needed before a final Medicare RBRVS can be implemented. The AMA will continue to expend all necessary efforts to ensure both the completion of a technically adequate RBRVS and its appropriate use by the PPRC, Congress, and HCFA in a Medicare indemnity system.

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TESTIMONY OF

M. RUDY GROOMES

PRESIDENT
ORANGEBURG-CALHOUN TECHNICAL COLLEGEC

AND

MEMBER
BOARD OF DIRECTORS
NATIONAL ASSOCIATION OF REGIONAL COUNCILS

BEFORE THE

CONSERVATION, CREDIT AND RURAL DEVELOPMENT SUBCOMMITTEE
OF THE
COMMITTEE ON AGRICULTURE

U.S. HOUSE OF REPRESENTATIVES

JUNE 29, 1989
WASHINGTON, D.C.

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Brenham, Texas

First Vice President
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Denver, Colorado

Executive Director
RICHARD C. HARTMAN

Good morning Mr. Chairman and members of the subcommittee. My name is Rudy Groomes. I am president of Orangeburg-Calhoun Technical College, a member of the Lower Savannah Council of Governments, and a member of the board of directors of the National Association of Regional Councils, on whose behalf I am testifying today.

Mr. Chairman, NARC would like to commend you for holding these hearings on rural development and making the effort to hear from so many diverse groups. As you well know, there is great diversity in rural America, and a a broad spectrum of issues needs to be addressed.

The National Association of Regional Councils represents the more than 500 regional councils in the United States. Our organizations go by a number of names such as regional planning commissions and councils of government. Many are economic development districts under the Public Works and Economic Development Act or local development districts under the Appalachian Regional Commission, or both. Their boards are composed primarily of local elected officials, creating direct ties between councils and their local governments. Regional councils serve as forums through which local governments can pool their resources, engage in joint projects and more efficiently coordinate programs, priorities and activities.

Rural regional council staff are primarily development professionals who assist their member local governments in meeting the challenges of economic development. They are typically involved in many state and federal economic development programs, including job training, small business financing and management assistance, grantsmanship and technical assistance for member communities, and the administration of revolving loan funds and block grants.

Regional councils are also involved in other program areas, such as aging, transportation, and environmental issues.

I am here today to discuss NARC's recommendation to establish a demonstration program to use regional councils to coordinate the delivery of rural development programs. A copy of the proposal is attached, so I will just summarize it. However, before I discuss NARC's proposal, I would like to breifly restate several points that have been communicated earlier to this subcommittee:

First, rural development must come from the grassroots. It must follow a program developed locally and approved by local elected officials. Local government involvement assures public accountability and provides the local leadership and delivery mechanism so essential for successful rural development programs.

Second, many small rural communities do not have knowledge of state and local development assistance available to them, or do not have the resources to apply for and administer development programs. The bewildering array of programs only adds to their confusion. Rural regional councils provide much-needed assistance in sorting out these programs and helping communities to apply for grants and loans.

Third, the $300 million available for rural development initiatives is not enough to fund a long-term solution to the ills in rural America, and it certainly isn't enough to be used to create new entities and administrative structures to administer new rural development programs. It could best be used in existing rural development programs such as Farmers Home water and waste water programs and the Economic Development Administration's revolving loan fund program for small business asssistance.

Therefore, what we are proposing, in brief, is the creation of demonstration rural regions as a low-cost means of evaluating a long-term development strategy. The demonstration regions would be given the flexibility to coordinate federal and state rural development programs to meet the needs of their regions. To do this, two things are necessary. First, states and the regional entities must have a development strategy. Second, the Secretaries of Agriculture, Commerce, and Housing and Urban Development, as well as the heads of other departments and independent agencies that administer rural development programs, must be given discretionary power to change those programs to allow the demonstration regions and their states maximum flexibility to coordinate and deliver them. The necessary changes would be requested by the demonstration regions and their states.

The states would develop a framework for formulating the substate regional development strategies. This framework would be developed by a committee designated by the governor and would include representatives of state executive agencies, board members of regional councils serving in their capacity as local elected officials and as board members, and business and private citizens. State programs would be used to match federal resources devoted to the demonstration regions. State programs would also have to be flexible in order to be readily adaptable to needs of the regions and their localities.

Finally, the demonstration regions would also have to have a development strategy in place and use state and local funding in a manner consistent with the development strategies.

After a specified period, the demonstration regions would be required to report on their progress to the governor's office. In turn, the governor would report to federal officials on the state's overall economic development progress. The reports would examine the effectiveness of the strategies adopted by the federal, state, regional and local officials. The funding departments and agencies would conduct an overall evaluation of the program and report to Congress.

We expect that the program would cost approximately $100,000 per demonstration region, with the money going to defray administrative and other expenses associated with developing and implementing the strategy and meetings with state and federal officials. The number of demonstration regions would be up to your committee and other members of Congress, and, we hope, would portray some of the diversity found in rural areas. The demonstration program could easily be funded with the $300 million contained in the budget resolution for a rural development initiative.

Mr. Chairman, NARC believes that demonstration regions offer an opportunity to explore a rural development program that is within the bounds of criteria that have been presented before this subcommittee. Using regional councils would allow development to be planned and implemented locally. Regional councils are existing entities that are already in place, are familiar with federal and state rural development programs, and are familiar to their local governments. They bring the benefit of a cohesive local planning and coordination process at an appropriate economic and geographic scale to more efficiently deliver public services. Regional approaches must be examined by any rural initiative proposed in this time of scarce federal, state and local resources.

Mr. Chairman, that concludes my testimony. I will be glad to answer any questions you may have.

(Attachment follows:)

Legislative Proposal for Demonstration Regions to Coordinate Rural Development

PURPOSE: To encourage federal, state, regional, and local government coordination of public and private resources for the purposes of small business development, workforce readiness, job creation, improved infrastructure, technology transfer, and enhanced delivery of rural public services.

PROGRAM: To select demonstration rural regions which will be afforded the flexibility to coordinate state and federal programs to enhance the development of their regions. To achieve this, regions and states must have a strategy for development and how federal-state-local programs can be more effectively used. In each region a regional organization involving local elected officials will serve as the designated regional agency for the demonstration.

PROCESS: The Secretaries of Agriculture, Commerce, Housing and Urban Development, and Health and Human Services and the Administrators of the Small Business Administration and Environmental Protection Agency will designate the state(s) that will participate in the demonstration project. In turn, the states will determine the substate regions and the strategic development program to coordinate federal and state rural development programs to the region. The Department of Agriculture would be the lead agency in administering the demonstration program.

The Secretaries and the Administrators will be given discretionary power to change programs within their jurisdiction in order to allow the demonstration states and regions maximum flexibility and coordination in delivering those programs. The necessary changes will be requested by the states and regional agencies. The resultant program elements that comprise the development strategy approved by these federal departments and agencies will be funded without regard to program limitations heretofore applicable.

The governors of the demonstration states will use state programs to match federal resources to the regions and localities. States will develop a framework and policy plan for the formulation of the substate regional development strategy and investment programs. The state policy framework would be developed by an intergovernmental policy and coordination unit designated by the governor and composed at least of representatives of the following interests: state executive agencies, local elected officials serving in their local and regional agency capacities, businesses and private citizens.

Just as states require flexibility in administering federal programs, state programs will also have to be flexible in order to readily adapt them to the needs of the regions and their localities. However, before using available federal resources, the demonstration regions must have a rural development strategy for achieving their goals. Regional organizations would then use the resources provided them in a fashion consistent with the regional development strategies.

If necessary, the federal programs would be matched by the demonstration states, either with money or in-kind assistance.

After a determined period, the regional entities charged with administering the development program at the regional and local level must report on their progress to the governor's office, which will also prepare a report for the Secretaries and the Administrators on the state's overall economic development progress. The reports should discuss the effectiveness of the strategies adopted by the federal, state, regional and local officials. The demonstration project reports must also include some discussion of the commitment of officials at the various levels of government to carry out the programs and strategies resulting from the project. The funding agencies will conduct an overall evaluation of the program and report to Congress.

PROGRAMS AFFECTED: FmHA Business and Industrial Loan Guarantees, Community Facility Loans, Water and Waste Disposal Loans and Grants, Intermediary Relending Program; HUD Small Cities Community Development Block Grants; EDA Planning Grants, Public Works Grants, Economic Adjustment Assistance; SBA 503/504 CDC programs; EPA Water and Waste Water grants; Department of Labor JTPA programs; Department of Human Services Older American Act programs; and relevant state programs for rural economic development.

COST OF DEMONSTRATION PROJECTS: Each demonstration region should receive approximately $100,000 to cover the administrative costs of developing a strategic development program, coordinating the various programs and implementing the strategy. The costs of the federal and state programs to be coordinated in each demonstration state are the same as would result from the normal appropriation and allocation process.

ADVANTAGE: In a period of scare federal, state and local resources, it is incumbent on policy makers to employ all programs on a coordinated basis in the most efficient and effective manner. Rural economic development programs have historically been criticized because they lack coordination, flexibility and focus needed to be effective. The demonstration project would allow programs to be tailored to the needs of the demonstration regional communities, with no increases in existing program funds, and with maximum intergovernmental coordination.

Written Testimony Of
Michael R. Wenger, States' Washington Representative
Appalachian Regional Commission
To The
Subcommittee On Conservation, Credit, And Rural Development
Of The House Agriculture Committee
Honorable Glenn English, Chairman
June 29, 1989

Thank you very much for this opportunity to testify before you.

For the past 22 years, I have worked in and for rural America, at the community level, at the municipal level, and at the state level. I have run a tutoring program for a county anti-poverty agency, directed both municipal and state community development programs, and served as Deputy Commissioner of the West Virginia Department of Welfare and Commissioner of the West Virginia Department of Employment Security. I have participated in rural development at many levels and from many perspectives. I have felt both the exultation of success and the despair of failure. But, as the States' Washington Representative for the Appalachian Regional Commission for the last eight and one-half years, representing the thirteen Governors who comprise one-half of the Commission partnership, I have been a part of the finest example of how government ought to work at every level and on virtually any issue.

I appear here today, in large part, because the members of the Appalachian Regional Commission -- The Federal Co-Chairman and the Governors of the 13 Appalachian States -- are committed to the revitalization of distressed rural economies and because they are deeply concerned with certain provisions of Senate Bill 1036, the "Rural Partnerships Act of 1989", currently pending in the Senate.

Without going into detail on that bill let me say that the members of the Commission are delighted with the current focus in both bodies on the problems of rural America. The attention is overdue, and we are grateful for those members who have recognized the needs which exist. At the same time we believe strongly that any effort to, in the words of Senate Bill 1036, "improve the economic, community, and educational well-being of rural America..."must, in order to be successful:

1. Provide for a full-fledged and meaningful partnership among federal, state, and local governments and between the public and private sectors;
2. Provide for sufficient flexibility to meet different needs in different areas without the establishment of articial and arbitrary limitations which may exclude many rural areas which are in desperate need of assistance;

3. Provide for elected public officials at all levels a degree of responsibility and authority which will ensure the stable and effective implementation of public policy and which will enable the citizenry to legitimately hold them accountable for successes and failures. In particular, we believe strongly that governors are in a unique position to view local needs within the context of federal goals and regional and state priorities; and therefore, they must have key roles in the design and implementation of any set of programs to assist rural America.

Nearly one and one-half years ago, the members of the Commission adopted a set of principles which reflect these beliefs. I would like to share those principles with you today in the hope that they will prove useful in your deliberations. But first, I would like to give you some background to enable you to put these principles in context.

The Appalachian Regional Commission is a unique regional partnership. It has been successful precisely because it is regional in nature; because it is a partnership among local, state, and federal governments and between the public and private sectors; and because it emphasizes a bottoms-up planning effort which permits coordination and cooperation among the partners while preserving the integrity of each of them. The Commission is composed of a Federal Co-Chairman, who is appointed by the President and has one vote, and the Governors of the thirteen Appalachian states, who collectively have one vote. It is a structure which mandates cooperation if it is to work.

Within the framework of broad national goals, the Federal Co-Chairman and the Governors cooperatively establish regional goals for the Commission. Within these regional goals each Governor establishes his/her priorities. These priorities are used as a guide to determine which projects within each state will receive the Governor's approval and be sent forward to the Commission for review and final approval by the Federal Co-Chairman. The projects submitted to the Governor have been designed and prioritized by Local Development Districts, composed of local public officials and private sector representatives. The result is that the projects contribute to regional goals and state priorities while addressing specific local needs identified by local officials. Thus, there is a strong local commitment to insure the completion of projects; and the projects, when complete, fit into a coordinated regional pattern which broadens their impact. Meanwhile, the planning process itself is leaving a lasting legacy of improved governance as public officials become increasingly sensitive, knowledgeable, and sophisticated.

The highway program is an excellent example of how this process has worked. A national goal was established to build a network of highways to open up isolated areas and to make them more accessible for development. The 13 Governors, together with the Federal Co-

Chairman, decided which criteria would be used to establish highway corridors and agreed on a formula for dividing the money and the miles equitably among the states. Then, each state, within that regional framework, developed its own portion of the Appalachian Development Highway System. The result is a system which is more than two-thirds complete and which has stimulated economic development in the Region, rather than simply accommodating traffic.

The vocational education program has worked a bit differently. Within the context of a national focus on education, the Appalachian Governors decided that basic job skills and training needed to be upgraded in the Region. They agreed to focus resources on improving vocational education. Working with the Local Development Districts, they identified local needs, shared ideas at Commission meetings about how to address these needs, and implemented projects which reflected those ideas. The result is a network of vocational education facilities and programs which complement each other and provide effective job training throughout the Region.

Similar to the vocational education program is the primary health care program. ARC's flexibility and responsiveness to local and regional needs has resulted in primary health care now being accessible in virtually all of Appalachia, a startling improvement over the situation which existed 24 years ago.

More recently, with more limited dollars but with continued flexibility to address emerging needs, we have provided seed money for a variety of approaches to reducing the high school drop-out rate in the Region, assisting small business development, promoting wood exports, and facilitating technology transfer efforts. We are now looking at the burgeoning aquaculture industry and re-visiting our earlier efforts at addressing the needs of Appalachia's young children. All of this is, of course, in addition to our more traditional physical infra-structure and basic services projects, which are now focused in our most distressed counties.

The success of the process is widely recognized. The American Enterprise Institute, in its 1977 study entitled "Shared Power", comparing categorical grants, block grants, and revenue sharing with ARC, concluded that:

> "ARC is working as it was intended to work. Its strengths are flexibility, responsiveness, improvement of state and local planning processes and increased involvement by state and local governments in the funding process."

At a Congressional in 1982 Representative Norman Shumway of California declared:

> "I'm particularly impressed that ARC programs have emphasized private sector initiative and involvement, and have depended in some degree on local and regional decision-making and action at a time when the limited ability of the Federal government to intervene in matters best left to States and localities is being properly recognized.
>
> "The focus and philosophy of the ARC may well serve as a model for Federal and non-Federal relationships of other sorts."

At that same hearing Representative Bob Roe of New Jersey concurred:

> "It's just been a great American success story. You have established an infrastructure institutionally that works. My God, why re-invent the wheel?"

Despite our success, however, the economy of Appalachia, like that of much of rural America, continues to lag behind the nation as a whole. According to the Economic Research Service USDA Senate report titled "Rural Economic Development In The 1980s", rural unemployment rates are about 31% higher than in urban areas, rural per capita income is 25% lower, rural poverty is 1/3 higher, rural school drop-out rates are higher, the rural population has a higher proportion of older inhabitants requiring higher expenditures per capita on health care and a higher proportion of younger inhabitants requiring higher expenditures on education. A slower cyclical economic recovery in rural areas as compared to urban areas has resulted in a widening economic and social rural-urban gap.

The Appalachian Regional Commission has done an extensive county-by county analysis of economic conditions in the United States. The results are shown graphically on this map, which depicts the relative economic condition of every county in the United States. Those 319 counties in red represent the most severely distressed counties in the nation. As you can see, these severely distressed counties are primarily rural and are situated in four pockets — Native-American areas of the southwest, border counties of Texas, the oil fields and the delta region of the south, and central Appalachia. The relatively healthy economic picture drawn by aggregate national figures does not reflect the distress in these portions of our nation.

In recognition of this situation the Commission, at its meeting in February, 1988, attended by 11 of our 13 Governors, unanimously adopted a resolution setting forth its findings and adopting principles for rural policy based on its experience with the Appalachian Regional Commission. The findings included the following:

"1. Rural America...continues to lag behind the rest of the country, with adverse consequences for national development.

"2. Rural America, more heavily dependent on manufacturing than urban America, derives most of its income from non-agricultural sources.

"3. In recent years, manufacturing as well as mining and other extractive industries in rural America, have been hammered by a variety of economic, technological, and financial forces that have significantly weakened rural areas' capacity to compete.

"4. The rate at which the gap between educational attainment in rural areas and the rest of the Nation has been closing is slowing, and existing deficits in rural health care delivery are growing.

"5. More than one-third of all rural counties have lost population in recent years, and many of those migrating out of rural areas are inadequately prepared to succeed in more competitive urban economies.

"6. Programs to aid rural America have been undertaken by all levels of government, with the result that some problems have been solved, others have not and still others have emerged that existing programs were never intended to address.

"7. As profound social and economic changes continue to transform rural America, a thorough review and revision of government programs and policies should be initiated, taking into account lessons learned from past efforts as well as current and emerging trends likely to continue into the future."

Based on these findings the Commission adopted the following principles, principles which have at their core the concepts of partnership, flexibility, and accountability:

"1. A high-level coordinated state-federal emphasis on rural development is essential. In the states, this requires gubernatorial participation in design and implementation. In the federal government, this requires appointment of an assistant to the President who can coordinate federal programs and policies for rural America and link federal efforts to state and private sector activities.

"2. The states should be expected to continue their leadership in devising new initiatives for rural areas.

"3. Priority should be given to improved targeting of federal resources, to eliminating administrative and regulatory barriers to the effective utilization of those resources, and to the use of those resources as incentives for programs of local service consolidation, education and training, technology transfer, and enterpreneurial development.

"4. All activities should be designed to foster efficient public-private cooperation that encourages private sector development in rural areas. Satisfying the needs of business for access to new technologies, adequate capital and technical assistance are important public concerns.

"5. Strengthening the human resources of rural areas is a key to their development. Further improvements in education programs at all levels, as well as drop-out prevention, adult literacy and worker training programs should all receive high priority.

"6. Rural areas are diverse economically, demographically, and geographically. Programs for their development must be flexible and sensitive to differing community, state and regional circumstances."

Let me translate these principles into specific suggestions.

First, there should be created in the White House the position of Assistant to the President for Rural Affairs for the purpose of coordinating federal programs and policies for rural America and linking federal efforts to state and private sector activities. The success of any effort to revitalize rural America depends, in large part, on the leadership, coordination, and resources of the Federal government.

Second, Governors must have a meaningful role in establishing goals and priorities, both for their states and for their regions in concert with other governors from the region; they must have a significant voice in the distribution of resources within their states and should be provided with incentives to allocate state resources to match federal resources; and they should be encouraged to continue their leadership in devising new initiatives for rural areas.

As we all know, economic problems do not recognize local or county boundaries. Often, they don't recognize state boundaries. But they do vary from region to region throughout our nation. The problems of the rural northeast are different from the problems of central Appalachia or the rural west and so on. Only the Governors, working together within some sort of structure, are in a position to provide the

the necessary regional focus and direction and, at the same time, to insure a coordinated and equitable approach in dealing with the rural areas within each state.

The county by county analysis I mentioned earlier suggests the validity of such an approach. Solutions to the problems being experienced in the four heavily distressed areas require federal leadership and assistance. But, equally important, because each of these regions faces problems common to the states within each region but unique to that region, cost-effective, long-term solutions require cooperation among the Governors of the states in each of these regions. Two of these areas are, of course, already served by regional structures in which the Federal government and the states are partners--central Appalachia which is served by the Appalachian Regional Commission, and much of the oil field and delta region which is served by the recently-created Lower Mississippi Delta Development Commission, in which Representative Espy has played such a vital role.

Third, existing local regional development organizations should, to the greatest extent practicable, be used to plan, prioritize, and implement local projects within the framework of national goals and regional and state priorities. In Appalachia there are 68 such organizations covering virtually the entire region. They are governed by boards composed of county and municipal elected officials and representatives of special interest groups, the business community, and private citizens. They have been the bedrock of the bottoms-up planning effort which has characterized much of the Commission's work, and they are largely responsible for the substantial grass-roots support enjoyed by the Commission. Similar organizations exist throughout much of the rest of our nation, often funded by other agencies of the Federal government. It makes little sense not to use such a mechanism which is already in place.

Fourth, flexibility to design specific programs to meet specific problems in specific regions must be permitted. Rural areas are diverse economically and demographically, and the problems of rural West Virginia are different from those of rural Oklahoma or rural Iowa. We must have legislation which enables us to strengthen human resources, meet physical infra-structure deficiencies, and satisfy the needs of business for access to new technologies and adequate capital. But we must not mandate common solutions to different problems in different places. State and local officials must make those decisions and be held accountable for them.

These are principles and suggestions which have guided the Appalachian Regional Commission in its efforts, and they are in evidence anew in the recent creation of the Lower Mississippi Delta

Development Commission. They have worked for us, and I believe they can create the framework for the success of future rural development efforts.

Let me conclude by addressing the issue of cost. Clearly aggressively pursuing the revitalization of rural America is a costly undertaking. In the past some who have considered it too costly have suggested that people should leave rural America for the supposedly more stable urban and suburban economies, particularly those of the so-called sunbelt. I believe that those suggestions are, in the main, misguided.

I would refer you to an article which appeared in the New York Times on Thursday, June 8, of this year. It is about what has happened to a group of people who did just that and moved with their company to Dallas, Texas, only to lose their jobs a few years later. They have now become, in the words of a New York Times headline writer: "Victims of a Dream Turned Sour". There are many similar stories of individual heartbreak and heartache as a result of people leaving their roots to go to where the jobs are.

I believe it is in our national interest, as well as in the interest of individuals, to make the revitalization of our rural economy a national priority.

First, just as our national economy and the economies of foreign countries are interdependent, so, too, are our urban and rural economies. In addition to the obvious need for the food stuffs we produce on the farms, we need the natural resources, the minerals, the oil, the timber which abound in rural America. If we abandon those distressed areas of rural America, we will make it more difficult to access our resources, and we will increase our dependence on foreign resources.

More profoundly, large-scale movements of people from distressed areas to find jobs can create chaos - economic, political, and social chaos. In the late 1950s and 1960s the weakness of the rural economy caused large scale out-migration from rural areas to the cities in search of jobs. People settled in Cincinnati, Dayton, Detroit, Chicago, New York, and other cities. Many were like fish out of water. Often they wound up unemployed and living in large concentrations of intractable poverty, the ramifications of which can still be seen today.

The trend was reversed in the early and mid-1970s as many people, sensing a resurgence of the rural economy, in part because of the renewed demand for energy resources, went back home. But during the recessions of the late 1970s and early 1980s, many people pulled up roots again to go prospecting for jobs. People from Pennsylvania, Ohio, Michigan, West Virginia, and elsewhere abandoned their homes, left their families, and set out for the boom towns in Texas, Oklahoma, Louisiana, and elsewhere in the so-called sunbelt. Most of them found jobs -- for a while.

But now, just a few years later, much of the sunbelt, as indicated by the New York Times article to which I referred a minute ago, particularly oil-producing country, is in the midst of serious economic problems. Many people who uprooted their lives and went to the jobs are now out of work and faced with a devastating choice -- to pull up stakes and move again if, in fact, they can afford to do that, or to stay where they are, unemployed and with their key support systems -- family, friends, familiar surroundings -- unavailable. Such economic changes will, inevitably, continue to occur. If we continue to encourage the large-scale movement of people to jobs, we may ultimately create an entire class of transients without roots or support systems. The resultant economic, political, and social instability will affect the entire nation.

Finally, less tangibly but equally important, if we fail to address rural economic distress, we run the risk of doing increased violence to many of the values which most Americans hold dear. The grip of urbanization and suburbanization has tightened in recent decades -- life in the big city has become more complex, more confusing, more fast paced; crime, traffic congestion, and pollution have increased; and the traditional values upon which our country has been built -- honesty and integrity, independence and self-sufficiency, hard work and thrift, a sense of family and a sense of community, a measured pace of life -- have become ever more distant.

On Main Street in America you could get a bank loan with a handshake, buy a car with confidence, go to sleep at night without locking your doors, let your children go out to play without fear of harm. You could breathe the air and drink the water, wave at each other on the street without getting a strange look, make it home from work without worrying about rush-hour traffic. You had a job you could count on, family you could rely on, a community which valued your presence in it. You had time to smell the flowers, and the flowers were there to smell.

But that vision of America -- of rural and small town America --is fading as people, especially the young and better educated people, are forced to abandon the countryside for the cities in search of jobs with which they can support their families. In its place we have overcrowded cities populated by overstressed people.

The issue is not whether we can hold on to that idealized vision for all America. We can not. Times change, and we must change with them.

The issue is whether we cherish these traditional values enough to fight for their perservation wherever we can. For as long as they remain in a significant part of our country and a significant part of our society, we still have access to them and they will continue to influence all of us to some degree. They will act as a balance to the increasingly helter-skelter life of the cities. And they will act as a guide against which we can measure ourselves and our adherence to values we treasure. In a very real sense investing in rural America is about saving our traditional values -- saving the spirit of America.

This Committee is faced with a daunting task -- balancing the budget constraints of which we are all aware with the equally clear necessity to address the needs of rural America and with the competing interests of various groups which have a stake in the future of rural America. I am convinced that the principles and suggestions I have enunciated here, growing out of the lessons and experiences of the Appalachian Regional Commission, hold the best promise of enabling us to effectively address these needs in a uniquely cost-effective manner.

The decisions you make will help determine whether rural America as we know it will survive and whether we will be able to effectively respond to the special opportunities and problems of rural areas. Your decisions will help determine the type of future which awaits rural America, and perhaps all America, as well as the endurance of traditional values we cherish.

I will be pleased to answer any questions you may have.

Thank you very much.

(Attachments follow:)

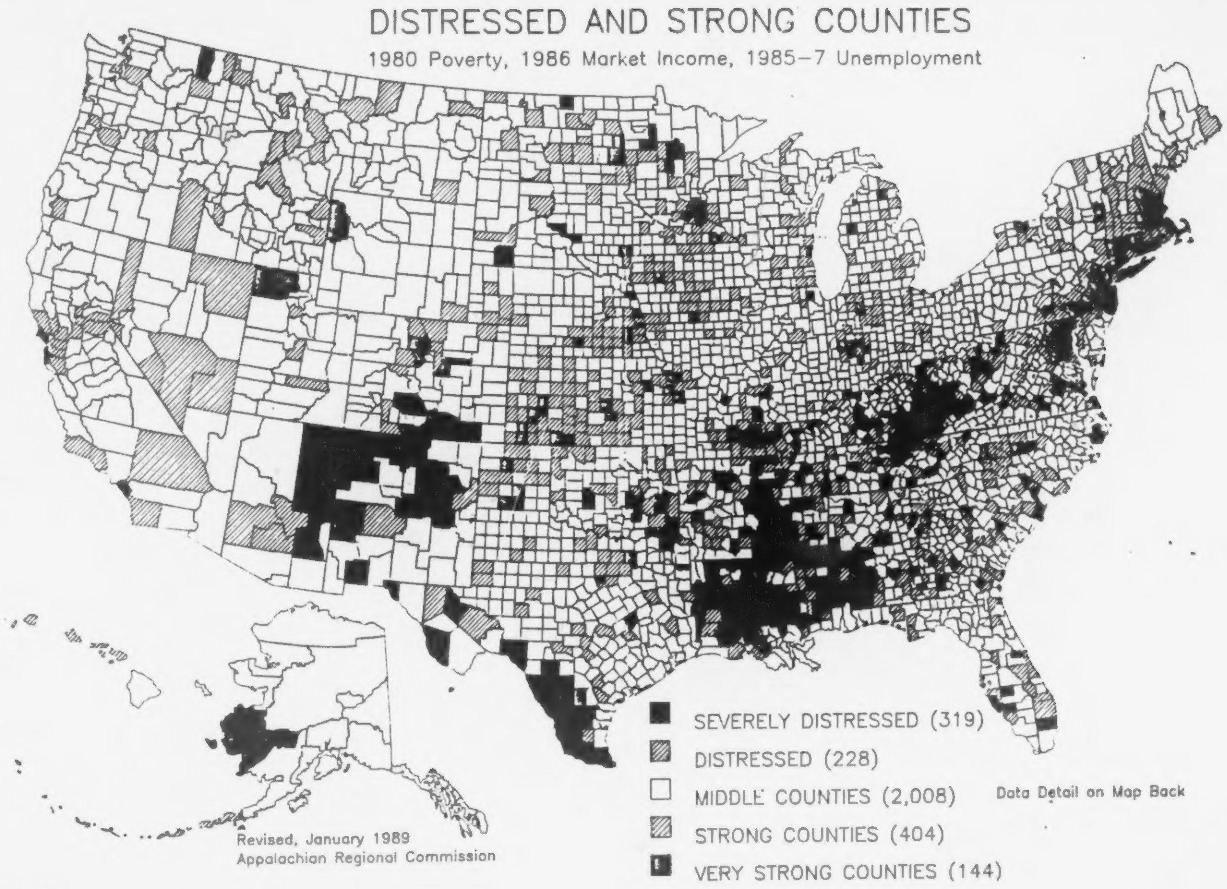
Criteria Used for Classifying Counties

County Type	Three-Year Average Annual Unemployment Rate, 1985-87		1986 Per Capita "Market" Income		Percent of Population In Poverty, 1980 Census	
Severely Distressed	At least 10.2% [150% of U.S.]	and	Not over $8,366 [67% of U.S.]	and	At least 18.6% [150% of U.S.]	
Distressed	At least 8.5% [125% of U.S.]	and	Not over $8,366 [67% of U.S.]	and	At least 15.5% [125% of U.S.]	and not Severely Distressed
Strong	Not over 6.8% [100% of U.S.]	and	At least $9,989 [80% of U.S.]	and	Not over 12.4% [100% of U.S.]	and not Very Strong
Very Strong	Not over 5.1% [75% of U.S.]	and	At least $9,989 [80% of U.S.]	and	Not over 9.3% [75% of U.S.]	
Middle	— All counties not in other classes. Individual indicators may vary widely.					

Three indicators are used in classifying counties: Three-year average annual unemployment is computed from BLS annual data; Per Capita "Market" Income is BEA personal income per capita for 1986 minus transfer payments per capita; and the 1980 Census poverty rate is the percent of total population under the official poverty level in 1979. Counties in each classification, except the middle group, meet the criteria for *all three* indicators. U.S. averages for each indicator are: 1985-87 unemployment rate, 6.8 percent; 1986 per capita market income, $12,487; and 1980 poverty rate, 12.4 percent.

Appalachian Regional Commission
1666 Connecticut Ave., N.W.
Washington, D.C. 20235

Revised January, 1989



DISTRESSED AND STRONG COUNTIES

1980 Poverty, 1986 Market Income, 1985–7 Unemployment

■ SEVERELY DISTRESSED (319)
▨ DISTRESSED (228)
☐ MIDDLE COUNTIES (2,008)
▨ STRONG COUNTIES (404)
■ VERY STRONG COUNTIES (144)
Data Detail on Map Back

Revised, January 1989
Appalachian Regional Commission

STATEMENT OF

LAWRENCE M. GRESSETTE, JR.

PRESIDENT

SCANA CORPORATION

ON BEHALF OF

THE EDISON ELECTRIC INSTITUTE

BEFORE THE

SUBCOMMITTEE ON CONSERVATION, CREDIT AND RURAL DEVELOPMENT

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

JUNE 29, 1989

Mr. Chairman and members of the Subcommittee, my name is Lawrence Gressette. I am President of SCANA Corporation, the holding company of South Carolina Electric & Gas Company, and I am here today representing the Edison Electric Institute (EEI). We appreciate the opportunity to testify on rural development and any relevant legislation concerning this important issue.

EEI is the association of electric companies. Its members serve 97 percent of all customers served by the investor-owned segment of the industry. EEI members generate approximately 77 percent of all electricity in the country and provide electric service to 73 percent of the nation's ultimate electricity customers.

EEI commends this Subcommittee on its efforts to hear from a wide variety of organizations before it takes action on any rural development initiative. As you know, EEI member companies provide extensive economic and community development services throughout rural America, in addition to electricity, and we share the Subcommittee's commitment to rural development. More than half of the 62 million people living in rural America are served by investor-owned utilities -- more than any other segment of the electric utility industry. Moreover, a 1988 survey of EEI's membership revealed that 55 percent of our companies serve markets that they would describe as predominantly rural. As the Subcommittee develops a legislative initiative, EEI strongly recommends that all local electric utilities be included as active participants.

Mr. Chairman, investor-owned utilities across the country have been deeply involved in all facets of rural economic development. Some examples of our companies' rural economic development projects are contained in the document attached to this statement, and The Powerful Source, a publication which highlights the economic development services of EEI member companies, a copy of which we would appreciate being made part of the hearing record.

We undertake these projects not only because we care about the areas that we serve, but also because the economic fate of our companies is tied to the economic well-being of our service territories. Among the economic development activities of EEI member companies are traditional business, industrial, and area development efforts. In addition, member companies provide community development assistance, work with state and local officials on strategic economic planning, provide technical and financial assistance to start-up businesses, support technology research at local universities, and support better schools, adult literacy training programs, long-term infrastructure development, and even rural historic preservation. Thus, we define economic development very broadly.

Impressive as these programs have been, more needs to be done. To assist in these efforts, EEI believes that, in any new initiative, funds for economic development must be available to all rural communities and business entities, not just those served by certain segments of our or any other industry. Rural development requires full participation in all needy rural areas, not just in limited locations. We also believe any additional resources committed to rural development must be leveraged with private sector assistance, unencumbered by a new bureaucracy.

Now, the question to be answered is: what works and how can the federal government help? Most important, successful rural development needs to involve cooperation with rural customers, states, counties, towns, regional councils, and other permanent institutions committed to achieving long-term improvements in these communities. To this end, EEI and its members suggest that a flexible approach be taken by the federal government in the design of any rural development program.

Rural America is extremely diverse, and restricting development opportunities to one or two vehicles for implementation would be a mistake. Some states have an effective economic development agency that could aid its rural communities in obtaining needed Federal assistance. However, for many rural communities, even trying to apply to a state or federal agency may stretch the limits of the community's resources. This may be where the local electric utility which serves the rural community can help.

Mr. Chairman, in your home state of Oklahoma for example, an investor-owned utility, Public Service Company of Oklahoma, only last month assisted the city of Grove to secure a $500,000 grant. That grant resulted in the location of a new business in that community of 3,300, with 50 new jobs in the first year expanding to 150 by the third year. It is important for all utilities -- investor-owned, municipal, and rural electric cooperative -- and all groups capable of providing assistance to work with local rural communities in their development efforts.

A recently-completed survey of EEI member companies demonstrates the role of investor-owned electric utilities in a rural development program. Our members indicate that "helping coordinate local economic development efforts" is more than twice as effective as any other overall economic development strategy. As a result, electric utility involvement in such development efforts have mushroomed, dominating staff activity and in some cases budget allocations. Of the respondents, an overwhelming percentage (96%) of our companies are involved in helping and/or coordinating local development. Moreover, companies in non-growth areas of the country tend to emphasize and spend even more resources on this function.

To expand on the cooperation that is needed for successful economic development, more than half of our members participate in joint planning with state and local governments. That approach received a "very effective" rating from fifty-six percent of the respondents. However, each circumstance will require a different response, and the success will depend on the unique dynamics of the locality or service area involved.

As evidence has mounted that a significant proportion of new jobs comes from the birth of new small businesses, EEI members are exploring ways of fostering new business development, and therefore new employment opportunities, in their service areas. For example, we also provide developers and businesses with a resource for presenting community, site, and building information using state-of-the-art technology and databases.

Another technique that has spread rapidly across the economic landscape is the use of business incubators. It is not surprising that nearly two-thirds of EEI members responding to the survey actively support them. However, the overall effectiveness of incubators is still unclear, with many companies very satisfied and a few companies very dissatisfied with the results of their incubator programs.

Now, as to the items you requested we discuss in our statement today, Mr. Chairman. Those items were: (1) a specific proposal or recommendation for rural development, (2) how such a proposal would be financed, and (3) the role EEI would play in seeking adoption of our suggestions.

SPECIFIC PROPOSALS FOR RURAL DEVELOPMENT

Access to Capital

As part of an overall economic development strategy or program, a combination of private and public entities providing financial and management assistance is an effective way to foster new business. In this regard, there are some specific areas in which utilities can participate.

In communities where resources are limited, utilities could act as a conduit for federal funds. Our member companies would not receive additional funds, but, instead, would broker any federal funds to rural businesses (both new and existing) and, possibly, incubator programs. Lines of credit (essentially grants) could be made available to recipients, including electric utilities, who would then make revolving loan funds (which would be matched by private funds) available to local businesses. Other potential broker/recipients might include state agencies, regional economic development organizations, state and local political subdivisions, and community development corporations, to name just a few.

Any federal funds made available under such a program could be used, for example, for equity capital, training, technical and management assistance, operating expenses and capital expenses. There also should be a requirement that any federal funds be matched (dollar-for-dollar) by funds from local lending institutions or from elsewhere in the private sector, including from electric utilities. Limitations should be placed on the amount of federal assistance which could be provided to each local business or project. In all, we believe this is a sensible and financially sound way to promote rural business development, because it leverages scarce federal funds and appropriately includes the private sector in the effort to spur private enterprise.

EEI strongly believes that investor-owned utilities, among others, should be included among any list of organizations eligible to administer revolving funds. Our inclusion makes good sense given that we generally have widely-representative boards of directors, a long-term view of and commitment to development, and excellent administrative and support services. We also have long-term relations with lending institutions that are capable of providing matching funds and close working relationships with state, regional, country, and local governments.

By contrast, however, under the Senate proposal, S. 1036, utilities and any other for-profit corporation would be required to establish a separate, non-profit subsidiary in order to receive federal assistance. Although this might work for some of our companies, the rural customers of all of our companies which are registered holding companies could not participate. These companies serve a large proportion of rural residents and, in order to establish a non-profit subsidiary, at a minimum, they would have to seek approval of the Securities and Exchange Commission (SEC) pursuant to the Public Utility Holding Company Act. Seeking and gaining such approval could be a lengthy process and, under existing case law, participation of these companies may be prohibited unless Congress specifically included them.

Moreover, in view of a recently-proposed SEC rule (54 Fed. Reg. 6701 (1989)), other EEI member companies now exempt from certain provisions of the Holding Company Act may also encounter difficulties in establishing such a subsidiary. The purpose of a revolving fund should be to provide assistance to rural areas in the most effective way possible; corporate structure should not be the determining factor in deciding which type of entity is best able to provide that assistance.

Just as there are legal impediments to the creation of non-profit subsidiaries, there are also practical considerations. The experience that investor-owned utilities have in serving local needs, the experience of our current board members, the availability to public utilities of corporate matching funds, the access we have to corporate technical and management assistance, training, financial and business planning, and the guidance routinely given to local businesses by utility management would be diminished, if not lost, if investor-owned utilities were forced to create independent, non-profit corporations to administer revolving funds. There appears to be no convincing reason why entities like investor-owned utilities, that have been so much a part of the nation's rural development efforts, should have to "change their spots" to be considered for participation in an important new rural development initiative.

Technical Assistance

When technical assistance is needed, the local utility should be able to participate in any Federal technical assistance program to facilitate its delivery. In fact, investor-owned utilities already have been active in the types of projects that technical assistance proposals would presumably seek to encourage -- identifying and analyzing business opportunities, including possible export markets, training and providing technical assistance to rural entrepreneurs and managers, establishing business support systems, and planning and coordinating regional, community, and local economic development.

Unfortunately, today both federal and private sector economic development expertise is scattered among various participants. To resolve this problem, we suggest the establishment of a coordinating body, comprised of experts from both the public and private sectors to coordinate and deliver required technical assistance. Experts could come from the Departments of Commerce, Agriculture (REA, FmHA, and the Extension Service), Health and Human Services, HUD, Transportation, the Small Business Administration, EPA, economic development organizations, utilities (gas, electric, water, and telephone), and any other organization willing to provide support.

Infrastructure Improvements

In addition, we realize that rural economic development means more than simply assisting and encouraging the development of new and existing businesses in rural America. Education, technology, telecommunications, water and sewer development, medical services and facilities -- in short, the new infrastructure of rural America -- require improvement and assistance. However, as Congressman Upton pointed out on the first day of these hearings, there are over 125 federal programs that already apply to rural areas. They range from rural water programs to migrant health centers. If rural areas are not being treated fairly under these existing programs, the programs should be reformed. Wherever possible existing programs or agencies should be used to meet the pressing needs of rural areas. New bureaucracies and duplicative programs are by definition wasteful and unnecessary.

Those departments and agencies already able to provide this kind of assistance should receive any additional available funds, earmarked for rural areas. Only where it is clear that such assistance is not available should consideration be given to providing existing agencies with new responsibilities. For example, we believe it is inappropriate to shift any infrastructure programs to REA. FmHA and EPA, among others, have existing programs that may need to be fine tuned for rural communities, but any shift to an agency with a limited client base, such as REA, is inappropriate.

Takeovers and Tying

Regardless of how any rural development program is designed, EEI strongly believes that the receipt of any federal assistance should not be tied to the provider of electricity or any other service. In other words, providing assistance under any initiative the Subcommittee may design should not be conditioned on the recipient accepting some other service. Likewise, EEI believes that scarce federal resources for rural development should not be diverted to finance the takeover of utility property or to entice developers or customers with non-regulated electricity pricing mechanisms.

Funding

Mr. Chairman, in response to your request for our suggestions for financing a rural development initiative, we will not suggest providing new funding in this time of budgetary restraint. Instead, we will discuss three potential sources of FY 1990 savings within the full Committee's jurisdiction. Of course, there may be other alternatives available, including sources elsewhere in the budget. As we indicated earlier, we envision any federal funds being matched by the private sector.

First, there is the appropriation that recapitalizes the Rural Electrification and Telephone Revolving Fund for past losses incurred by the program. This could be "zeroed out" without affecting the program level, because the fund does not need additional capital -- it has unlimited borrowing authority. From a budget standpoint, this would create a savings of budget authority for the appropriations bill, thus providing the Committee with an equivalent amount of funds that could be committed to rural economic development. It is my understanding that $341 million was appropriated for this purpose in FY 1989.

Another potential source of financing for rural development might be loan asset sales. I have been advised that the value of the government's loan portfolio for rural housing is estimated at $27 billion. While estimates for the 1990 sale of such loans are uncertain, I have been informed that the Administration has proposed sales of $1.5 billion for 1991. If the sale of loans identified for 1991 were accelerated by moving some of them into 1990, it would produce budget savings equal to the value of the sales.

Last, the Administration has proposed shifting the rural electrification and telephone direct loan program to partial guarantees. The net savings by moving from direct loans to guarantees is estimated by the Administration to be as much as $225 million in the first year (1990), although less savings might be realized depending on how such a shift is structured.

Again, we would point out that these are merely potential sources of savings. There may be other areas within or outside the Committee's jurisdiction which merit your consideration.

Finally, Mr. Chairman, you have asked what role the 180 member companies of EEI would play in implementing any proposal which the Subcommittee may develop. Pursuant to the policy approved by our Board of Directors just this month, we would support and advocate a Subcommittee proposal that provides investor-owned utilities an equal opportunity to assist rural economic development. Investor-owned utilities are proud of the partnerships we have forged with our rural customers. We believe that our support for a creative, flexible, and inclusive new rural development program would also be welcomed and supported by those whom we serve. We believe that nation's electric providers -- investor-owned, municipal systems and rural electric cooperatives -- all have an important role to play in the revitalization of rural America. We want to be able to work with the Subcommittee in the development of a bill that incorporates and augments our current efforts to assist the over thirty million rural customers whom we serve.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or members of the Subcommittee may have.

(Attachments follow:)

SELECTED EXAMPLES OF INVESTOR-OWNED UTILITIES IN RURAL AMERICA

Listed below are selected examples of investor-owned electric utilities' role in rural America. They are representative of the effective grassroots partnerships existing throughout the service territories of EEI member companies.

Economic growth and development in the rural areas which it serves has been a primary focal point for South Carolina Electric and Gas (SCE&G) and its holding company, SCANA Corporation. Between December 1988 and June 1989, SCANA contributed local matching funds for grants in seven communities totalling $166,334. These contributions leveraged $10 million in investments in rural communities in South Carolina for wastewater treatment, water expansion, and road improvements. Furthermore, the funds meant approximately 1,115 new and retained jobs in Calhoun Falls, North Augusta, North Ridgeland, Williston, Lexington, and St. Matthews, whose average population in 4,241.

SCE&G's corporate contributions in rural communities are not limited, however, to simply matching state and federal grants. SCE&G has also made contributions to fire departments, rescue squads, high school scholarships, downtown development associations, youth baseball, and other projects. SCE&G's annual weatherization program aimed at improving living conditions for low income customers certainly includes those living in rural South Carolina. Its good neighbor fund supported by employee payroll deductions provides assistance for groceries, medical needs, and mortgage payments for all qualified customers, many of whom reside in rural South Carolina.

As another example, last year the Alabama Power Company, which serves over 700,000 people in rural areas, funded design and engineering studies for industrial parks in two rural Alabama communities (Jackson and Talladega). In addition, since the mid-1970s, the company has been an active participant in Auburn University's Rural Development Program. Alabama Power provided original planning in 1981 to Auburn to establish an ongoing Spring Workshop for civic leaders involved in community development. That has subsequently been augmented by an Industrial Training course, administered by the Auburn Extension Service.

Through the work of its economic development department, Alabama Power has been instrumental in bringing thousands of jobs to the State. The Company also has in place a training program for volunteer, community industrial teams which provides information about sites and zoning, financing, utilities, labor, transportation, construction, insurance, and taxation. Finally, Alabama Power has opened a multi-million dollar resource center that provides development prospects with extensive information about nearly every community and potential development site within the state of Alabama.

In Indiana, too, investor-owned utilities have worked for a number of years with state and local leaders to successfully promote rural economic development. Public Service of Indiana (PSI), which serves more than 500,000 people in rural communities, has joined with state and local leaders to create 7,000 new rural jobs within its service territory. The utility has played a role in helping to bring such companies as Kobelco, Fujitsu Ten, INTAT, Charming Shoppes, Automotive Industries, Technotrim, Happico, Sherwin-Williams, and Nucor Steel to rural Indiana. These new arrivals have brought substantial development to the rural infrastructure.

In the Nucor Steel case, the company is preparing to melt and produce steel on a site that was a corn field less than two years ago. Nucor has invested about $250 million already and will employ 500-600 workers, mostly from rural Montgomery County. PSI assisted the location effort by providing aerial photography, site selection, inspection and engineering, soil samples, physical and human infrastructure analyses, and demographics. Additionally, PSI helped Nucor by purchasing an option on the land for the site, and closely coordinated the effort with all government officials involved. Separately, PSI recently negotiated economic development rates with its wholesale customers, including rural electric cooperatives and municipalities, which also serve rural Indiana.

Arkansas Power and Light Company's (AP&L) ties to rural Arkansas were forged in the early days of providing electricity to farms and providing an infrastructure to its rural citizens. That partnership continues today. Much of its service territory encompasses the farms and small communities that make up this state, where the principal industry remains agriculture.

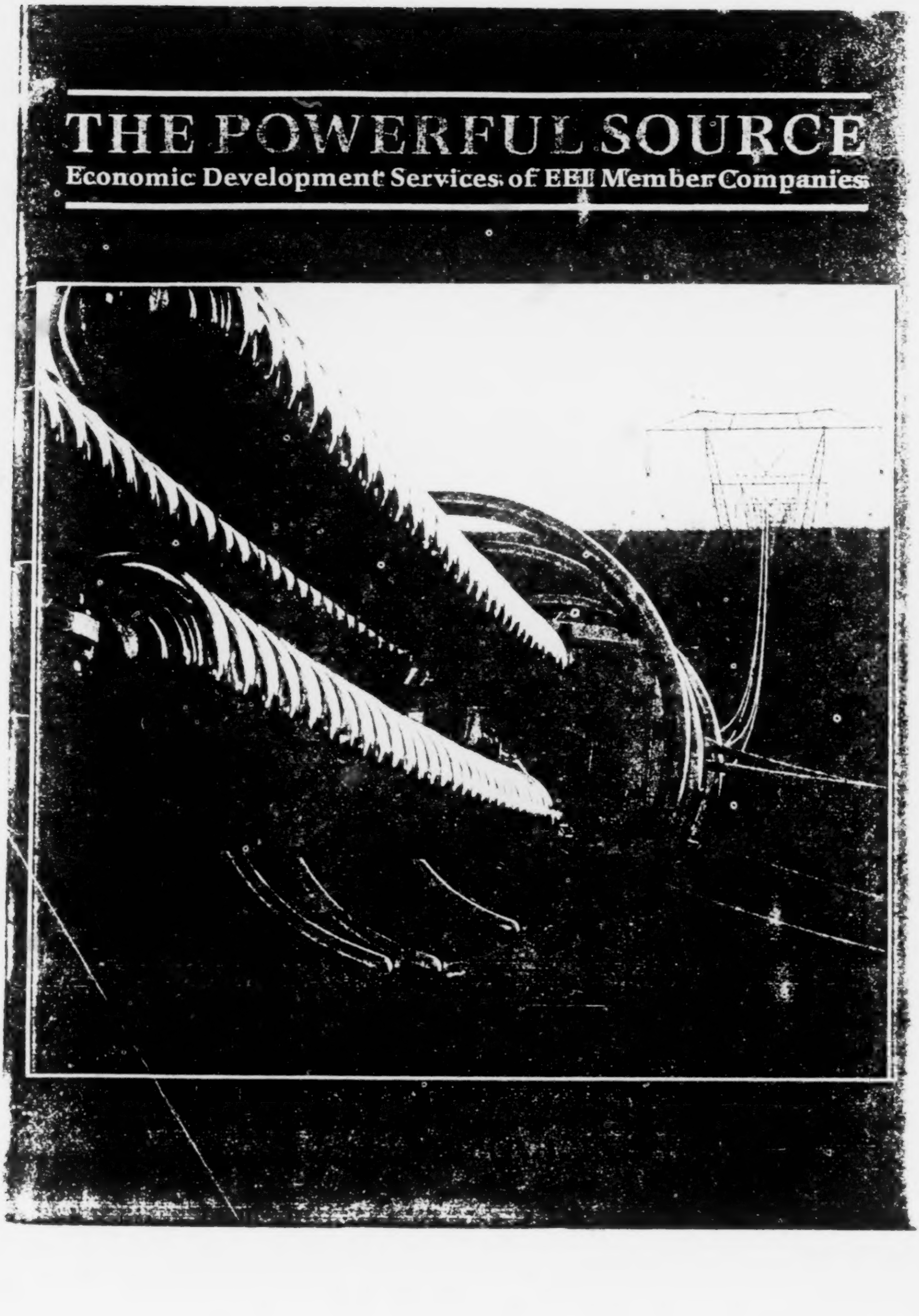
AP&L works in partnership with the agricultural community on various projects, including community development and educational improvements for rural schools. In 1987, AP&L established a five-year, $15 million program called Teamwork Arkansas/Missouri. This economic development program has already resulted in more than 8,000 new jobs. Through this program, grants and funds are made to many predominantly rural communities to upgrade water and sewer facilities. These facilities are essential if these small communities are to maintain and support surrounding farm life and related agriculture endeavors. Grants are also made to many rural schools that help improve math and science curriculum.

Other AP&L rural development activities include: infrastructure grants for extending roads, sewer and water lines to industrial sites; video profiles for promoting communities to industrial prospects; funding marketing assessments for communities in eastern Arkansas and southeastern Missouri to identify their strengths; an industrial team-training program for local personnel in recruiting and working with existing and potential industries; and scholarships to further economic development training in rural areas.

Georgia Power Company's "Georgia Business Location Center," a high-tech interactive video display and information system, is used by virtually all state-wide developers in marketing the state of Georgia nationally as well as internationally. Presently, the system has 340 industrial park sites and 162 communities. Recently, the Company did 172 video aerial flyovers of communities. Extensive demographic and economic data is at the fingertips of users of the Georgia Business Location Center. A duplicate video system is being installed in Japan.

Yet another EEI member company, Public Service Company of Colorado (PSCO), has been involved in economic development since the early 1960s. PSCO is the only electric utility in Colorado with a major state-wide effort in the area of economic development. As such, it maintains a close working relationship with the Governor's Office of Economic Development, the International Trade Office, and the Department of Local Affairs Rural Development Office. PSCO also takes an active role in the Economic Developer's Council of Colorado (EDCC).

Currently, Public Service of Colorado is the coordinator of a new program marketing the rural areas of Colorado through a targeted, direct mail marketing effort. This will involve coalitions of two or more rural counties and is funded 50 percent by PSCO and 50 percent by the coalitions. Other PSCO programs include: helping find tenants for vacant manufacturing facilities; providing economic and community development training in Eaton, Milliken, Evans and Ault; and helping the people of Alamosa find needed venture capital.



THE POWERFUL SOURCE

Economic Development Services of EEI Member Companies

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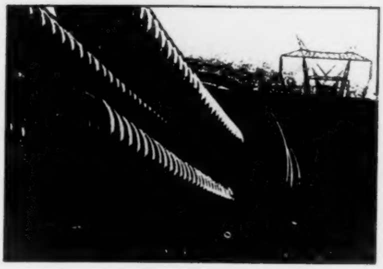

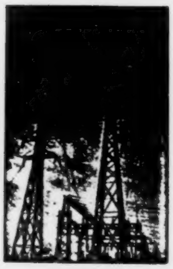

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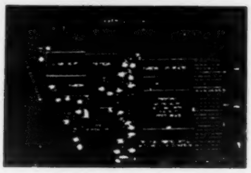

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PRESIDENT'S LETTER

A Vital Resource

As part of American communities for as long as 100 years, electric utility companies provide reliable supplies of electricity to homes and businesses with a high level of service excellence. Utilities are a critical component in the economic well-being of the areas they serve. As a result, many companies provide a range of economic development services. These activities not only help stabilize the utility's financial environment, but also provide an opportunity to increase and maintain a broad-based economy. This is a key component to area economic stability. Utility-sponsored services enable businesses to work with a well-established community member, covering a broad geographic area. Utilities provide confidentiality and the expertise needed for companies expanding or locating in various regions.

Electric utilities are known for the quality of research provided within time-specific parameters. This is crucial for companies requiring thorough and time-sensitive information. Also, utilities have a unique knowledge and perspective of the areas they serve. A strong and equal interest is taken in communities throughout their service region, and a company's project-specific requirements can be met as a result. Utility service boundaries remain generally unchanged allowing them to maintain a working relationship with the new or expanding business. And, for businesses finding it necessary, the utility is best positioned to discuss such things as innovative rate designs. In fact, approximately 35 utilities to date have in place area development rates with others interested in pursuing these or other rate-reduction features.

The following pages provide just a glimpse of the opportunities utilities can provide to potential markets. In addition, The Edison Electric Institute Location Assistance Directory *lists over 240 economic development specialists employed by electric utilities across the country. We hope site selectors will use these resources and remember that electric utilities can play an important part in planning their future.*

William McCollam, Jr.

William McCollam, Jr., President
Edison Electric Institute

(The complete report is held in the committee files.)

STATEMENT OF

JACK C. KEEN

ON BEHALF OF THE

NATIONAL RURAL TELECOM ASSOCIATION

Good morning Mr. Chairman and members of the subcommittee. My name is Jack C. Keen and I am Chairman of the Board of Western New Mexico Telephone Company in Silver City, New Mexico. Today I am also appearing as President of the National Rural Telecom Association, a national trade association of commercial local exchange telephone companies that obtain financing for their capital needs through Rural Electrification Administration programs.

The Role of REA Telephone Borrowers in Rural Development

My company serves about 4,000 customers in nine exchanges spread over more than 15,000 square miles, an area about the size of Connecticut and Maryland combined. We are a good example of why the REA programs are important. It costs more to serve sparsely populated areas, and my company serves a very sparse area. We have less than 1 1/2 customers per route mile and only about 1 access line for every 4 square miles of service territory. Without the REA programs and the FCC's universal service fund and interstate toll rate averaging policies, we could not provide service throughout our service area at affordable rates.

I am happy to be here today to discuss rural development, which NRTA agrees is a pressing need. The REA telephone borrowers are already a part of one of the most successful rural development programs Congress has ever adopted, so we know what a big difference good government policies can make. At the same time, we recognize that with federal budget constraints we need to work together to find meaningful improvements that don't require substantial budget increases. Fortunately, existing REA telephone programs provide opportunities to do just that.

This subcommittee's careful efforts to involve people in rural communities in designing rural development legislation through comprehensive hearings here in Washington and in the field will assure that the resulting bill responds to real needs with real solutions. In contrast, we have some concerns with the course of the Senate's rural development efforts. Despite the good intentions behind those proposals, we are afraid the consequences could be to undermine development of the existing rural telecommunications infrastructure. NRTA did not have the opportunity to testify on the Senate proposals, but we recently were afforded the opportunity to provide a statement for the record. We are providing a copy of that statement, filed jointly with the other national telephone associations, (without attachments) and ask that it be included in the record here.

Mr. Chairman, NRTA agrees with you that Congress "must listen to those who live and work in rural America and ensure that federal programs work in tandem with their state and local efforts." NRTA believes that building on the existing rural telephone infrastructure as a foundation and using time-tested federal programs is the key to meaningful rural telecommunications development.

Including Rural Americans In the Information Age

The REA programs have been instrumental in bringing rural people into the telephone era. Now we're on the threshold of a new Information Age, where technology offers new possibilities for rural education, economic development, health, cultural and political participation and all the other benefits of an information-rich society. More than ever, we need strong REA telephone loan programs and coordinated congressional policies that permit an improved integrated nationwide local distribution network to extend to the rural subscribers, as well as urban households and businesses. Congress should confirm universal information services and nationwide advanced network capability as national goals. The rural development legislation this subcommittee will design can play an important role.

Technology is moving so fast that no one can predict all the opportunities that communications will open up for rural people. For example, optical fiber has the capacity to carry voice, data, video programming and facsimile transmissions at the same time. Most larger cities and numerous intercity routes already have fiber in place. Some is being installed in rural areas. But rural areas can't afford to fall behind urban areas in communications capabilities. Businesses already look carefully at the cost and range of communications before choosing to locate in an area. Communications will become even more important as new services develop.

Specific Recommendations For Rural Development That Build On the Existing REA Programs and Telecommunications Infrastructure

I am happy to say that REA insured, guaranteed and Rural Telephone Bank loans are already authorized under the Act for most, if not all, of the improvements rural areas will need to keep pace with Information Age developments. But some improvements in REA programs are necessary so the rural telecommunications infrastructure can evolve as part of a nationwide intelligent network. The following proposals, which could be incorporated into this subcommittee's rural development bill, will help rural telephone companies provide state-of-the-art communications without significant new costs to the government:

1. REA should provide funding for all Rural Electrification Act purposes, including things like computers, headquarters

buildings, equal access costs, advanced network capabilities like Signaling System 7 and vehicles and work equipment. Using REA funds for the full range of telephone company needs will encourage rural service improvements and help keep rural rates reasonable. Regrettably, REA has not been lending for many important Act purposes in recent years, despite the broad loan purposes in the present Act.

2. Rural Telephone Bank borrowers with high interest rate unadvanced funds should be allowed to rescind the old loan and apply for a new loan for the same purposes at more reasonable current rates. Under its current policy,which the REA has been unwilling to change, the REA will not make a second loan for the same purpose. The overcharges by the Rural Telephone Bank, which Congress corrected, prospectively, in the Omnibus Budget Reconciliation Act of 1987 left many borrowers with outstanding loans at interest rates that Congress has found are excessive. Fairness to borrowers makes the new approach we suggest essential to complete the remedial action Congress began in 1987 under your leadership, Mr. Chairman. There are more than $600 million in unadvanced funds that have already been counted against earlier fiscal year budget authorizations. New loans of these funds should not be scored against the REA's loan level a second time.

3. The REA technical staff should be beefed up and directed to advise REA telephone borrowers how to bring cost-effective information services to their areas. Technology is moving so fast that it must be effectively disseminated to REA Borrowers so rural areas will be in a position to keep up. Loan applications should be processed more quickly, too. As of June 23rd, nine months into this fiscal year, REA had approved only 25 loans, representing collectively only 15% of the minimum authorized loan levels for both insured and RTB programs. At the same time, pending loan applications have soared to over $600 million for the first time in a number of years. Congress has criticized the loan process delays in reports in the past, but we have yet to see any lasting improvements. Indeed, the red tape and layers of review have actually increased at REA.

4. The REA should make use of the $153.8 million in carryover funds authorized in past years but not made available to rural telephone systems. It should also make full use of its loan authority each year, as long as there are qualified applicants for the funds. Congress sets a range of loan levels each year. Treating the minimum as the ceiling for loans -- and not even meeting the minimum, at that -- is not consistent with a commitment to rural development.

5. The REA should be required to set loan amortization schedules in accordance with the request of the borrower, up to the full period authorized by the Act, not shorter periods that undermine the effectiveness of REA programs. The recently adopted

regulation is an unwarranted effort to diminish the benefits for rural subscribers. Congress authorized 35 year REA insured loans and up to 50 year RTB loans to permit substantial capital improvements with minimal adverse effect on rural subscriber rates. We understand that the target under the new regulations will be far less than either maximum and may even be as little as 20 years. Since REA has a mortgage on all property, including after-acquired property, there is no valid security interest in limiting the loan term to the useful life of the assets being financed.

6. REA should have a flexible dividend policy to encourage REA borrowers to make more investments in rural areas. The current REA dividend policy treats investments in affiliates as distributions to stockholders, which holds captive funds which could better be used for rural development purposes. For example, rural telephone systems are natural candidates for investments in local telecommunications related enterprises, such as sharing arrangements to make equipment available to businesses which cannot afford the investment on their own.

7. REA eligibility should not be restricted by raising interest coverage requirements for insured loans. REA has recently adopted a regulation requiring 125% interest coverage for such loans. There is no corresponding Act requirement, and historically REA has used a 100% coverage test for insured loan feasibility. Higher requirements can impede loans to areas that need service improvements the most. REA has not given any good reason for disqualifying otherwise eligible telephone systems or reducing loan amounts to meet the new test.

8. Congress should encourage the REA to use the existing telephone loan program to foster local school districts in collaborating with their local exchange telephone companies to bring two-way instructional courses to rural schools. Using and improving the existing telephone infrastructure will help meet the critical need for better educational opportunities in rural areas with limited resources. And, when the telephone company puts in optical fiber for the local school, it moves a step closer to bringing Information Age technology and services into the whole rural area. If government funding is used instead to encourage technology that is less suited to rural areas and to bypass the existing telephone infrastructure, rural development will be a hollow promise. NTIA and the Aspen Institute agree that competition can be "counterproductive in sparsely populated areas where the economic base may not be sufficient to support a single firm, much less competing firms." That's the story in rural America. That's why we still need the REA programs. But we don't need inefficient, government funded duplication. It's a luxury we can't afford, especially in this era of Gramm-Rudman.

Preserving the Rural Telephone Franchise To Spur Efficient Rural Telecommunications Development

Mr. Chairman, bringing Information Age technology and services to rural areas is important, but it won't be easy. Congress adopted the REA programs because rural areas were not getting acceptable telephone service. Most states have regulated telephone service as a public utility "affected with the public interest." Telephone companies are allowed to provide service in their franchise areas without competition in return for providing universal service at reasonable rates. This package of rights and obligations is known as the local franchise.

The local franchise will be even more important as rural telephone systems try to modernize their service to keep pace with the information revolution. If new entrepreneurs or other service providers are allowed to serve the best customers or densest parts of rural areas and leave the outlying areas unserved, an REA telephone borrower serving the less desirable subscribers and areas will have to raise rates to cover its fixed costs. The states must not lose their ability to use the local franchise as the tool that has proved successful to extend service to virtually _all_ consumers. An article by economist John Panzar explains why the franchise is so important to rural telephone systems. I am providing a copy of his article and ask to have it included in the record of your hearings.

REA Telephone Systems Are Already Working Toward Rural Development Goals

In conclusion, Mr. Chairman, I don't want to leave the impression that rural telephone systems have not been upgrading their facilities and services. As of a year ago, the percentages of REA borrower and Bell Operating Company switches that had been upgraded to digital were roughly comparable -- better than 30%. We are confident that a comparison of BOC rural areas with REA borrowers would disclose that REA borrowers are ahead in upgrading rural switches to digital. REA borrowers are also working to bring optical fiber technology to their service areas. The fiber-based interactive video links provided by local telephone systems and used by schools in Oklahoma, Iowa, North Dakota, Wisconsin, Kansas, Minnesota and elsewhere are a good example.

There is more to do, of course, and new technology and services will increase the challenge. But rural areas are not falling behind because their telephone systems have been inattentive to subscriber needs. What our rural telephone systems need is the opportunity to keep up with urban developments, both to encourage new industries to locate in rural America and to assure that all rural Americans can receive the benefits of the information era through telecommunications. Rural telephone companies are ready to meet the challenge of bringing modern service to their areas, if Congress will only maintain, strengthen and update the strong national commitment, policies and programs that have already made high quality service a reality for so many rural Americans.

Thank you for the opportunity to appear before your subcommittee, Mr. Chairman, and for your strong interest in rural needs. NRTA will be happy to work with the subcommittee, its staff and the other national telephone associations -- which are unanimous in proposing rural development that builds on successful REA telephone development programs -- to fashion meaningful and cost effective rural development legislation.

(The prepared statement submitted June 23, 1989, to the Senate Committee on Agriculture, Nutrition, and Forestry, is held in the committee files.)

STATEMENT OF

RAYMOND C. SCHEPPACH
EXECUTIVE DIRECTOR
NATIONAL GOVERNORS' ASSOCIATION

Thank you Mr. Chairman for the opportunity to present the position of the National Governors' Association on the critical topic of rural development. NGA has been actively involved in rural development for some time. New Alliances for Rural Development, a report of the Task Force on Rural Development, was released in 1988. NGA, through funding from the Kellogg Foundation, is working with several states to improve their activities in rural development. The NGA Committee on Agriculture and Rural Development developed the attached policy, which serves as the basis for the proposal I will outline today.

This statement deals with some of the current barriers to economic development in rural areas, the best approaches to meet the needs of rural America, and the role of states as primary partners in federal rural development programs.

Let me begin by exploring some of the differences between urban and rural economies that compel the Governors to action in rural development.

RECOGNIZING THE DIFFERENCES

The economic issues facing rural America do not parallel those experienced by urban and suburban areas. The first economic indicator that reflects a difference is the unemployment rate. For the period 1979-1986, the average difference between metropolitan and nonmetropolitan unemployment rates was 1.9 percent. The difference was higher in 1986 than for the period as a whole, demonstrating that the post-1982 economic recovery did not reduce the differential, despite generally lowering absolute levels of unemployment. In fact, in many states the recovery was associated with significantly increased differentials.

Employment growth rates are another factor that indicate differences between urban and rural economies. Metropolitan employment grew an average of 14.7 percent from 1979-1986. Nonmetropolitan employment, on the other hand, grew at a rate 5 percent below the metropolitan rate, approximately 10 percent.

Another critical element of measuring economic performance is real earnings. Earnings is the sum of wages, salaries, and proprietor income. In metropolitan areas, real earnings grew 9 percent from 1979 to 1986, with significant variations among the states. In the average state, the nonmetropolitan real earnings growth rate was 0.2 percent, with 29 states experiencing negative real growth and 13 of these experiencing double-digit declines. In addition, metropolitan areas experienced increases in real per capita income at twice the rate of nonmetropolitan areas (6 percent compared to 3 percent). Per capita income equals the sum of earnings; dividends, interest, and rent; and transfer payments divided by total population.

These measures of economic activity affect population migration and, once again, rural America does not fare particularly well. Between 1979 and 1986, the rural population grew at a rate considerably slower than metropolitan population (7.2 percent compared to 9.1 percent). Seven states experienced actual decreases in nonmetropolitan populations during that period.

The economic picture in rural America is constantly changing. There are significant variations between states and among rural areas within states. Fluctuations will continue to occur but in the long-term, rural areas will continue to lag metropolitan areas.

PROVIDING BASIC NEEDS

Regardless of where people live, they have the same kinds of needs: employment, adequate health care, a good education, a safe water supply, and adequate housing. Governors are concerned that all citizens of their states have access to these basic necessities.

Many rural communities lack the economic stamina to provide the kinds of basic necessities that people demand. As a community's ability to provide services decreases, its ability to maintain jobs also decreases, creating a cycle of economic deterioration. Past investments in infrastructure, such as schools, roads, and waste treatment facilities, are underutilized and new investments in urban and suburban areas are required. These continued economic inefficiencies will reap a heavy toll on our ability to stay competitive in the world economy.

THE ROLE OF STATE GOVERNMENT

There is an important role for government to play in continuing vitality of rural America. It is clear that leadership for change must come from within the community. It is equally clear that they cannot go it alone. Small communities face significant barriers to true economic development: a morass of programs, the lack of developed business and finance expertise, limited ability to "package" an array of social and economic services needed to improve an economy, and others. Rural communities need to cooperate with each other on a regional basis and they need a broker to provide planning, expertise, and other services outside the jurisdiction of the community. We believe that state government is the best candidate for this brokering job. States do not want the job of deciding what development should occur because that is a community decision, but the states should assume the role of enabling communities in their own economic development decisions.

For too long, the only government activities in rural development generated from the federal government. Hence many local decisions on community development have been directed and guided by program decisions made at the federal level. When the needs of a community are great and resources are small, the structure and priorities of federal programs often dictates local strategies, rather than individual community needs. While we recognize the important role the federal government must play in rural development, we also know that efforts to restructure rural economies and institutions must build from the ground up and that states and communities are now active partners in rural development.

The answers for rural America are as diverse as its communities. All levels of government bring distinct resources to the discussions. We must capitalize on that diversity and build alliances between the federal, state, and local governments. State governments are in a position to help communities define goals and strategies for achieving them and that expertise should be utilized.

In small towns and big cities alike, specialized knowledge is required to develop realistic policies to guide community investments. Small rural communities are at a disadvantage in planning and preparing for the future because such communities tend to have a limited knowledge base. Many states have responded to the need for strategies tailored to communities and enhanced local information bases. In Arkansas, for example, the Rural Development Action Program brings together state, federal, and local community leaders to identify short-, medium-, and long-term objectives for all the residents of the county. The product is a comprehensive development plan that includes goals in the areas of education and training, health and human services, public facilities and housing, business development and agriculture development. In Iowa and South Carolina, special leadership development programs provide training and information to community leaders to help them identify community needs and utilize available resources.

In addition to increased sophistication in planning and new leadership skills, many rural communities can benefit from specialized business expertise and new sources of financing. In a rural community, the private sector has fewer organizations and a narrower industrial base; therefore access to specialized expertise and financing can be more difficult. States throughout the country are working with the private sector, foundations, and nonprofit organizations to assure better access to business and financing expertise for businesses in rural communities. States are also in the business of operating revolving loan funds, venture capital funds, and special loan-loss reserve funds to move more capital in to rural communities that need it.

States bring to the rural development table the unique ability to influence a vast array of policy decisions that have a significant impact on community development. The states are the policy makers in job training programs, such as Job Training Partnership Act, and can use those resources to complement community rural development activities. State government provides the vast majority of the funding for public education, both in elementary and secondary schools and post-secondary institutions. We know that an educated community is key to revitalization of a local economy and the states have direct responsibility for where education money flows. States are the decision makers in the Community Development Block Grant program that moves federal money into communities to assist in development activities. States have access to sources of capital for revolving loan funds, venture capital funds, and other types of direct financial assistance to communities. States can also assist communities in leveraging additional resources that are available through the federal government.

States are in the best position to help communities and groups of communities realize their potential. The alliance will be enhanced by the brokering and coordination provided by the states to increase the efficiency of community economic development efforts. If states are not included as the cornerstone of economic development efforts, the programs run a high risk of duplication of service and ineffective delivery of comprehensive services.

There is clearly a renewed commitment to rural America. Federal, state, and local governments are dedicating additional resources to these efforts. We must, however, be cautious in our approach. The Governors believe that we must establish a new federal-state-local alliance that will encourage both long- and short-range strategic planning and allow for regional differences and local flexibility in the types of services and programs developed to aid rural America. The following principles must be embedded in our rural development efforts if they are to be successful:

- Government initiatives to finance rural development must be more tightly targeted to geographic areas and to people in need.
- Programs must complement, not counter, the values of independence and self-determination that characterize the founders of many of our rural communities.
- Public initiatives, in the long run, must not counter the incentives of the marketplace.
- Local communities must develop their own human and economic adjustment strategies based on a realistic self-assessment of social and economic needs.

We believe that any successful rural development proposal must provide states with resources to coordinate and strengthen current rural development efforts. It must allow for a wide range of activities to occur utilizing various delivery mechanisms. It must institutionalize a comprehensive rural development planning process and provide the federal government with oversight of the process. It must assure that resources of the federal, state, and local governments are used in tandem. It must clarify and simplify the process of providing assistance to rural America by clearly vesting authority for coordination, oversight, and accountability with state government. It should require the states to match the federal financial commitment with state money and should provide a cap on how much money states could use for administration of the program.

SUMMARY OF A SUCCESSFUL PROGRAM

The following seven provisions are the outline of our program to assure success in rural development:

- A block grant to the states of $500 million.
- Allocation to states based on a formula that compares income, earnings, unemployment, and population migration factors between metropolitan and nonmetropolitan populations.
- A limitation on the amount states can spend on administration of the program.
- Imposition of a state 50 percent match requirement on all federal funds received.
- Creation of grant program for up to $125,000 per state per year to develop and maintain comprehensive rural development plans in cooperation with local governments, regional councils, and others involved in rural development
- Requirement that the bulk of the money be granted or loaned, by the state, to local governments, regional councils, and others involved in rural development activities.

- Allowable activities for grant or loan recipients include but are not limited to:

  Creation or continuation of revolving loan funds.

  Operation of or participation in community leadership training programs.

  Infrastructure development including physical and human capital.

  Business and technical assistance.

  Other activities consistent with the comprehensive state rural development plan.

CONCLUSION

The Governors believe these components are essential to the success of rural development. Attached to this statement is a proposal for a program that could serve as the outline for such a new rural development initiative. It outlines a program that will develop and utilize the expertise of state and local officials and the oversight of the federal government to operate the rural development programs. We ask that you consider it as you prepare your solution to the rural development dilemma.

The viability of rural areas is critically important to the maintenance of a quality lifestyle, as well as the overall economic health of our economy. Urban communities will continue to demand assistance from government at all levels; similarly, rural areas need healthy rural economies to have the resources to provide needed public services. The economic and physical infrastructure of rural America is eroding at a rate that threatens the provision of these services. The nation's Governors join you in your commitment to rural development, and look forward to the opportunity to participate with you at the federal level, our partners in local government, the private sector, and all others interested in this topic in a new alliance for rural America.

(Attachments follow:)

ALLIANCES FOR RURAL DEVELOPMENT

Rural America is faced with a broad range of critical problems. No single level of government has the resources, the expertise, or the capability to resolve all these problems. Cooperative efforts in the planning, coordination, and targeting of resources are needed to mount an effective effort to assist and support rural America.

To facilitate this coordination and strengthen rural America, states would be eligible to receive rural development alliance grants to aid them in the creation and implementation of strategic plans to assist rural development initiatives in their states. Through a consultative process, states could provide resources to help coordinate the use of local, state, and federal resources available for rural areas, provide capital, support technical and business assistance, provide leadership development, and support information services to rural regions.

Rural Development Alliances Program

A. Upon application to the secretary of Agriculture, each state shall be eligible to receive funds to carry out the provisions of this act. Up to $125,000 may be used for development of the plan.

   1. Funds will be allocated among the states based on the following factors:

      a. percentage of the states' population living in nonmetropolitan areas;

      b. states' relative share of percentage change in per capita income in nonmetropolitan areas;

      c. states' relative share of percentage change in population living in nonmetropolitan areas, and

      d. other factors deemed relevant by the secretary.

B. States choosing to participate in the Rural Development Alliance program shall be required to:

   1. Appoint a Rural Development Planning and Policy Advisory Council. This council shall have representation of local government, community development agencies, state economic development, transportation, health, human services, and education agencies, and representatives of private business and industry including finance institutions.

   2. Develop a strategic plan for state rural development initiatives, including:

      a. the identification of major needs for rural areas;

      b. the identification of resources available to assist in meeting these needs; and

      c. goals and strategies for using these resources to meet the needs identified in the plan.

Strategies for utilizing available resources shall include but not be limited to:

1) development and or continuation of revolving loan funds;

2) grants to local governments regional economic and community development organizations, nonprofit economic and community development organizations and business organizations involved in rural development;

3) provision of technical assistance to government, nonprofit and business organizations involved in rural development;

4) provision of business assistance and job create activities;

5) capacity building to plan and manage for development; and

6) infrastructure development including physical and human capital;

C. Each state will be required to file a strategic plan with the Department of Agriculture as a precondition for receipt of Rural Development Alliance funds in the second year of the program. The state plans, developed in cooperation with representatives of local government, community development agencies, and appropriate state officials will be used as a guide for the department in working with both internal and external agencies and departments on programs and policies which will aid individual states.

D. Each state will provide a match equivalent to 50 percent of funds received under the Rural Development Alliance Program.

E. Each state shall spend no more than 5 percent of its allocation under the Rural Development Alliance Program on costs of administering the program.

F. Eligible recipients for grants from states through the Rural Development Alliance program shall include:

1. Local governments.

2. Regional economic and community development organizations.

3. Nonprofit economic and community organizations.

4. Business organizations involved in rural development.

5. Universities.

6. Other state agencies.

G. Priority for receipt of grants from states through the Rural Development Alliance program will be given to entities:

1. That have experience in services to be provided or that have the ability to serve such needs and make such decisions.

2. Whose boards of directors, or governing bodies if no such board exists, are composed of a cross-section of individuals (such as individuals with a business, community development or regional development background, or individuals who are State, local or county government officials, or individuals involved in banking, financial, or other investment activities).

3. That agree, and are able, to provide funds that are in excess of the funds to be provided through the Rural Development Alliance program;

4. That are likely to stimulate significant job creation or retention and new business creation or business expansion per dollar of funds provided under this section.

5. That submit applications that demonstrate the ability and willingness to provide continuing technical and management assistance, training, financial and business guidance, and planning to local businesses.

6. Located in very distressed rural areas.

H. Authorization of Appropriation

An appropriation of $500 million should be authorized annually in fiscal years 1990 through 1992.

National Governors' Association

Policy Positions

1988-89

G-2. STRATEGIC MANAGEMENT AND INVESTMENT FOR RURAL VITALITY

2.1 Preface

Stress in rural America goes beyond ebbs in the business cycles for mining, energy, agriculture, and manufacturing. Global adjustment to long-term structural changes in basic economics affects rural America. Economic changes buffeting rural areas emanate from national resolves – international trade policy, currency exchange rates, deregulation of transportation, banking, and communication, and reorientation to a service economy.

The nature and courses of rural stress differ across America, and the human, capital, and natural resource endowments of communities are distinct. Managing and investing in rural vitality requires that state and federal programs reduce the barriers and stimulate adaptation to changing times.

Federal and state assistance can help rural America if:

- government initiatives to finance rural development programs must be more tightly targeted to geographical areas and to people in need;
- programs complement, not counter the values of independence and self-determination which pioneered rural communities;
- public initiatives in the long run, do not counter the incentives of the marketplace;
- local communities develop their own human resource and economic adjustment strategies based on a realistic self-assessment of social and economic needs.

Communities must develop their own economic adjustment strategies based on a realistic self-assessment of the potential for economic growth and the need for transitional policies. State government should assist rural communities in identifying and developing their own comparative advantage, and to catalyze change in the rural economy. Federal programs must be more adaptable and flexible to meet the changing economic conditions in rural states and communities.

2.2 A New Alliance

Essential to the revitalization of rural America is the ability of our three levels of government to work together. We must improve the way programs are planned and managed. Activities need to be focused and coordinated so that limited resources are used more effectively. To facilitate this process, a new federal-state-local alliance should be formed -- an alliance that will encourage both long- and short-range strategic planning and allow for regional differences and local flexibility in the types of services and programs developed to aid rural America.

2.3 Changing Roles

2.3.1 **Introduction.** The challenges facing rural America are changing, and the federal government needs to reevaluate and renew its commitment to rural development.

The federal government operates more than two dozen economic and community development programs that benefit rural areas. These programs have benefited some individuals, communities, and businesses. But they are a strong disincentive to strategic thinking at the local level.

The multiplicity and narrow focus of many programs make it difficult for rural communities to find their way through the maze. Too often, communities embark on activities that respond to federal objectives rather than to local priorities.

Furthermore, the funds available to these federal programs have been shrinking steadily in the 1980s, and since many operate on a project-by-project basis, with decisions made in Washington, they are not a reliable basis for sustained local economic development efforts.

A more flexible and reliable system of assisting rural communities is needed. State governments are the key.

2.3.2 **State Flexibility.** A few federal programs, like the small communities portion of Community Development Block Grants, give states and local governments a significant measure of flexibility. But most federal rural initiatives bypass state government.

As states assume broader responsibilities for investing in more productive and competitive economies, it makes less sense for federal programs to bypass the states. If states are involved, federal programs can supplement and reinforce state efforts to orchestrate economic development programs with education, transportation, tax, and many other state policies that are important to rural communities.

Federal legislation is needed to provide greater flexibility for new federal-state-local alliances. The key element of the new alliance must be additional flexibility to orchestrate federal and state resources to meet the objectives of strategic plans that are developed by states and local communities. Legislation will be required to allow substantially greater flexibility in merging and targeting funds to meet local needs. Because of dwindling resources, especially in small states, maximum flexibility must be provided. Consolidation of existing federal programs would also be desirable. Some limited additional federal funding should be provided to meet critical gaps, but any new funds should be used to increase the funds available to the consolidated pool of programs rather than to create another separate program. In addition, the administration's rural regeneration initiative needs to be clearly articulated with Governors and a collaborative approach taken. Federal agencies should establish offices of innovation to encourage states to test creative approaches for administering programs in rural areas.

2.3.3 **Federal Role.** The expanding role of states in economic development does not mean the end of a distinctive federal role. The federal role is not diminished, just different. In addition to providing tax incentives and some of the financial support for the federal-state-local alliance, federal agencies have important roles as providers of expertise and information to rural communities and states.

The federal government should continue and expand its leadership responsibilities for monitoring rural economic, social, and demographic conditions. This should include monitoring federal regulatory and macro-economic policies, as well as federal programs, to determine how they affect rural areas. It should also include a permanent clearinghouse that would monitor state and local rural policy initiatives and work cooperatively with state and local governments in assessing the effectiveness of these initiatives.

2.3.4 **Advisory Council.** To support the new federal-state-local alliance, and to guide the work of the clearinghouse, a permanent advisory council of federal, state, local, and private sector leaders should be constituted. This council can then work as a catalyst to help develop new national policies towards rural development, and be a key resource to local and state officials as they become increasingly involved in managing the changes being faced by rural America.

2.4 State Role

Promote rapid response community development. Flexible, more profitable ways to use endowed resources -- human, natural, and existing infrastructure which leverage limited funds -- may be established if states designate a cabinet office as the lead agency for rural development and develop a state rural development plan that promotes equal access services enjoyed by urban Americans. States can use a variety of approaches to promote community development.

2.4.1 **Human Resource Management Innovations.** States can:

- Educate rural youth with comprehensive career preparation that will improve their lifetime career flexibility -- particularly in rural areas.
- Target job training toward underemployed and unemployed rural citizens, recognizing that the needs of rural dislocated workers require responses and services different from those of urban dislocated workers. For those farmers unable to continue farming, the state should target employment training and counseling services to assist in the transition into other occupations.
- Require emergency response emotional and financial crises counseling for rapidly changing rural areas and more comprehensive health care services.
- Support leadership development, management counseling, and entrepreneurial training for businessmen, farmers, and ranchers.

2.4.2 **Economic Development Innovations.** States can:

- Fashion development policies for economic growth in the traditional industries of manufacturing, natural resource based, and value-added products as well as service industries, including tourism and retirement services, agricultural producer services, and telecommunication services.
- Provide development assistance -- in partnership with local communities, the extension service, and state and federal urban development program experts -- that includes services to farm and non-farm rural businesses such as marketing, management, grants, loans, equity investment, venture capital, bonding authority, relocation grants, and training capabilities.

- Reform constitutional and regulatory barriers to enhance state or local solutions or adjustment strategies to changing opportunities for jobs and prosperity.
- Develop user friendly data systems to identify trends in potential domestic and international markets for products produced in rural America. Data, leadership training and application assistance should be provided by the Cooperative Extension Service to assist small, disenfranchised communities identify sources of state and federal funds to support economic and social development innovations by local communities.
- Establish Technology Transfer Centers which provide rural business interests with easy access on initiatives by state and local governments to stimulate productivity, technology and innovations for rural business ventures.
- Develop and enhance regional compacts to provide common state services, such as shared multi-state human service programs or coordinated agricultural marketing efforts, where sparsely-settled areas are unable to provide independent state services.
- Develop the State Conservation Reserve Program Enhancement Program as an economic development tool to encourage small business start-ups in rural areas. Farmers can use the "present value" payment from their Federal Conservation Reserve Program contracts as capital.

2.4.3 **Natural Resource Management Innovation.** States can:

- Support resource conservation and management which ensures sustainable agricultural production and a quality natural environment.

Adopted August 1986; revised February 1987, July 1987, February 1988, and August 1988.

AMERICAN PUBLIC POWER ASSOCIATION
2301 M STREET NW WASHINGTON DC 20037

STATEMENT
of the
AMERICAN PUBLIC POWER ASSOCIATION
Submitted to the
SUBCOMMITTEE ON CONSERVATION, CREDIT,
AND RURAL DEVELOPMENT
HOUSE COMMITTEE ON AGRICULTURE
on
RURAL DEVELOPMENT INITIATIVES

August 1, 1989

The American Public Power Association (APPA), the national service organization representing more than 1,750 local, publicly owned electric utilities throughout the country, submits this statement to the Agriculture Subcommittee on Conservation, Credit, and Rural Development concerning rural economic development.

Public power systems are nonprofit electric utilities that are owned and operated by a political subdivision -- municipality, county, state, or other public body -- and controlled by elected or appointed officials. Nationwide, these public power systems, many of which are located in small rural towns, serve approximately 38 million electric consumers, or 15 percent of the population.

As units of local government, public power systems play an integral role in economic development. Given this local responsibility, the predominance of public power systems in rural locales, and the current rural economic condition,

(OVER)

APPA commends this subcommittee for examining the problems of rural America, and looks forward to working with this subcommittee to help develop legislation to encourage rural economic development.

As has been documented before this subcommittee, rural America is facing a crisis of major proportion. The problems rural communities encounter go to the basics of everyday existence -- jobs, education, health care, and community services. Many rural areas suffered severe economic shock in the mid-1980s from which they are yet to recover. Today, rural America has higher poverty and unemployment rates and lower incomes than metropolitan areas. Currently, 18 percent of rural Americans, as compared to 13 percent of urban Americans, live in poverty. In 1987, about 10 percent of families in rural areas headed by an employed person were living below the poverty level ($9,056 or less for a family of three). The comparable figure in metropolitan areas was 5.7 percent. Rural areas have unemployment rates that are 31 percent higher than urban areas, and per capita income averages 25 percent lower in rural areas than in urban areas.

Rural America is experiencing a continuing outmigration, with almost a million people leaving rural areas in 1986-87. This declining population, with its attendant lower tax base, restricts the ability of many small, rural communities to provide quality public services. Sufficient community services necessary to foster business development in the area are not being provided, and many of these communities lack the financial and technical resources to provide these services.

Public power systems are an integral part of rural America -- almost 88 percent of all public power systems serve 10,000 or fewer customers. In May, APPA profiled small public power systems. In summary, the report found that of the 1,954 publicly owned and operated electric systems that provide electric service at retail, the median public power system has 1,696 meters -- or a population of approximately 4,500 people.

Almost 64 percent of these smaller systems are located in the nine states of Iowa (113), Nebraska (99), Kansas (96), Minnesota (82), Missouri (52), Ohio (50), Wisconsin (48), Indiana (43), and Oklahoma (38). The five contiguous states of Iowa, Nebraska, Kansas, Minnesota, and Missouri account for 45.2 percent of all public power systems below the median size of 1,636 meters.

Because public power systems are locally owned and controlled, they are instruments for meeting local objectives, including community development. For example, low-cost electric service can be an attractive inducement to new business and industry, which broadens the tax base and creates more jobs and local income. Further, community-owned electric utilities often transfer revenues to the local operating budget, make payments-in-lieu-of-taxes, or provide free lighting for streets and public buildings. As part of local government, public power systems are in a unique position to integrate their services with other community functions -- such as sanitation, water supply, and municipal cable systems -- to meet broad public service goals. Such payments and services can save money and offset the need for higher taxes.

Some specific examples of public power involvement in economic development include the following:

- The public power system in Lamar, Colorado, helped attract a large German bus company by offering to heat and cool the manufacturing plant with residual heat from the powerplant cooling system at no cost. As a result, the bus company located its first U.S. facility in Lamar, creating 500 local jobs. The public power system is currently expanding the availability of cooling water to an adjacent industrial park to help attract other industrial development.
- Greenport Municipal Utilities, New York, in a one-year demonstration project, is producing low-cost ice -- critical to the areas' fishing industry. The project uses about one-tenth the amount of energy normally required to produce commercial ice, resulting in a ton of ice costing $10, compared to $30-$50 a ton for ice produced from traditional methods.
- The public power system in Sioux Center, Iowa, installed at a local college and high school a biomass demonstration project that uses waste paper products made into fuel pellets by a local firm. This project is expected to benefit the community by reducing the cost of energy to the schools, reducing the use of landfills for solid waste disposal, creating new employment, and helping the local economy by retaining dollars otherwise exported from the community.
- The Lower Colorado River Authority in Austin, Texas, works with local communities in its 41-county central Texas service territory to promote economic development. It conducts economic outlook conferences, assists customers in designing statistical surveys of interest to new industries, and provides community economic development training.

Local government -- and public power -- has a clear stake in rural economic development. However, it is our belief that the problems of rural America transcend political boundaries. The time to battle about turf is passed.

Rural America faces pressing problems that must be addressed:

- essential public services -- transportation, drinking water, and sewer service -- must be provided to improve the quality of life and provide the necessary infrastructure for economic development;
- economic diversification is needed to break the "boom and bust" economic cycle that has characterized rural economies;
- technical and financial assistance is needed to encourage businesses to locate or expand in rural communities; and
- adequate health care and educational services must be provided.

The provision of many of these services is a traditional function of local government. However, in some rural areas, units of local government lack the population base and technical and financial resources to adequately meet this challenge. More importantly, the economic future of these rural towns and cities is inextricably linked to the economic health of the surrounding, unincorporated areas. For example, a recent study compiled by the Lincoln (Nebraska) Chamber of Commerce found that the city's labor force was drawn from all the contiguous counties, or approximately a 30-mile radius. This example highlights the economic interrelationship of cities and the surrounding community.

An integrated, area-wide approach is needed to ensure strong and sustainable economic development. While the needs of incorporated, and unincorporated communities differ, failure to simultaneously meet the needs of both will result in a patchwork solution, unable to survive.

Currently, there are multiple delivery systems for needed services: states, counties, cities and towns, economic development agencies, community colleges, extension services, rural electric cooperatives and water systems, and other private, nonprofit agencies. The magnitude of the problem of rural development requires a coordinated effort that integrates the skills, resources, and service population of all these entities.

Public power knows firsthand the value of coordinated action. For more than 30 years, public power systems have tapped these benefits through formation of joint action agencies -- individual public power systems pooling resources to build or finance generation and transmission systems. Through this joint action approach, individual systems are able to share economies of scale, minimize power supply costs, and use resources more efficiently.

A joint action plan is especially beneficial in promoting economic development since it would benefit a whole region, rather than providing services and funds in a patchwork manner which could lead to economic balkanization. There are several examples of public power systems and rural electric co-ops joining together to apply this concept. For instance, in Gibson County, Tennessee, a 607-square-mile area about 85 miles from Memphis, four municipal utilities and one rural electric cooperative joined forces to create an economic development agenda for the county. With five service areas, competition for new business could become an issue. But the decision was made to market the county as a whole. In another example, the South Carolina Public

Service Authority, a state agency, and Central Electric Power Cooperative, the power wholesaler for 15 co-ops, formed a nonprofit organization to pursue regional industrial development. In both instances, the partnership approach proved more effective in promoting economic development than any individual effort.

Coordination, joint planning, equitable distribution of decisionmaking authority, and cooperation are all necessary for this joint action approach to work. Therefore, APPA urges the subcommittee to craft a rural development initiative that encourages regional coordination among various rural delivery agents. For instance, before funds are distributed for capital improvements, the initiative should require a positive showing that the proposed project is intended to meet the collective needs of a broad geographic area in an economic and efficient manner.

Thus, rural development legislation would:

- encourage comprehensive development of a geographically and economically diverse area;
- promote economies of scale for the construction and operation of sewage, water supply, transportation, and other infrastructure services;
- avoid unnecessary and costly duplication of services; and
- promote the efficient use of limited resources.

By encouraging coordination and joint action, APPA does not in any way intend to diminish the role of local governments. As recognized in the position paper prepared by the Local Government Coalition on Rural Development, in most rural areas, multijurisdictional regional planning organizations join with local governments to improve economic opportunity. Although APPA was not part of the coalition, we share the coalition's desire to integrate local governmental units in multijurisdictional, area-wide, rural economic development efforts.

In conclusion, APPA believes that we must recognize the importance of regional thinking -- of looking at a large geographic area, irrespective of political boundaries, in terms of jobs, economy, and rural development. We must explore ways to encourage regional and joint efforts, and to blend the needs and expertise of various rural entities to obtain economies of scale, lower costs, and efficient use of resources.

If rural development programs do not take advantage of opportunities to consolidate services, federal funds are likely to be wasted. Small private water and sewer systems, for instance, frequently cannot achieve the scale necessary to be economic, meet environmental standards, or employ the best available technology. Programs of this type should not be federally funded absent a finding that an area-wide solution will be implemented. Town and country needs must be considered simultaneously. Like rural schools, consolidation may be the only answer. Further, the use of politically responsible government delivery systems, including municipal and county political subdivisions, must be given prime consideration.

We look forward to working with this subcommittee to fashion legislation to encourage rural economic development.

Testimony of
Eugene Severens
Center for Rural Affairs; Walthill, Nebraska

before the
U.S. House Agriculture Subcommittee
on Conservation, Credit and Rural Development
Washington, DC
June 29, 1989

Mr. Chairman, thank you for this opportunity to provide written testimony in conjunction with subcommittee hearings on rural development. The Center for Rural Affairs has been involved in researching the impact of public policies on family farm agriculture and rural communities since 1973. Our critique on these policies and their implementation comes from the vantage point of the small farm community, Walthill, Nebraska, in which the Center is located. The Center is governed by a 17-member Board of Directors which includes farmers and ranchers, rural business leaders, clergy and educators.

While development issues such as failing infrastructure, educational opportunities, health care, and transportation needs are critical components of a comprehensive rural development strategy, my comments will be limited to our concerns about the proper and necessary role of the federal government in business and economic development. Because rural economic development problems and needed strategies are not confined to state boundaries, it is imperative that federal programs to encourage the establishment of new enterprises be explored. We are also primarily interested in the impact of the federal government's involvement on those areas of the Midwest hardest hit by the crisis in agriculture, plagued by continuing population decline, and marked by increasing rates of poverty.

Background

The Center for Rural Affairs has conducted a number of demographic and economic studies of a six-state region of the Midwest (Iowa, Nebraska, South Dakota, North Dakota, Kansas, and Minnesota). These studies show that 55% of the counties (277 out of 503) in these states are "farm-based", meaning at least 30% of the primary employment is in farm production. The shaded area on the attached map (Attachment 1 -- "Farm-Based Counties in the Middle Border, 1986)") shows the extent of this multi-state constituency of small farm communities.

Overall, these counties depend on production agriculture for 42% of their primary employment. Of the area's 503 counties, 210 have no town with a population over 2500. Over two million people live in these counties, but they have lost, on average, 7.4% of their population since 1969. These areas have a higher poverty rate (17%) than other counties (11%), including other rural counties (12%).

While some will argue that these farm-based communities are destined for further decline and little can be done to prevent it, the intentional or unintentional abandonment of these smaller communities ignores certain realities and opportunities. First, the realities are that, as noted above, this area of the Midwest is dependent on agriculture and is characterized by small, dispersed towns, most of which are far from so-called "growth centers" which are the focus of many current rural development efforts. If public programs designed to facilitate enterprise formation in the Midwest do not recognize this reality or purposely ignore it, policies intended to spread economic development throughout the country will only contribute to the disparity between people and communities.

Secondly, the belief that agriculture is a dying industry and the tendency to target assistance to so-called "growth centers" limits the tremendous potential present in smaller, rural communities to promote business development, job creation, and economic vitality. The growing interest in sustainable agriculture can lead to new and innovative ideas for enterprise development such as food processing, energy conservation practices, direct marketing, and alternative crops. And the opportunities are not limited to agriculture either. A large segment of the population of these farm-based counties is entrepreneurial in character, with a 43% self-employment rate (compared to 27% for all other counties in these states). Self-employment is not merely a feature of the farm economy of these counties, either--28% of the non-farm work force is self-employed, nearly twice the rate in metropolitan counties in the region. Over half the earned income in these farm-based counties is from self employment. Programs which fail to tap into this trait of the people who live here will be ignoring a critical asset of the region.

Conventional Business Development Programs

Conventional approaches to rural development focus on tax incentives for industry recruitment, community education and planning, technical assistance, management and logistic support, and loan guarantees to new or expanding businesses. While some of these, such as community education and technical assistance, can be useful, we believe few of these approaches have contributed to lasting success in business development in the small, disperse communities shown on Attachment 1.

The popular growth center policies are based on the concept of "triage," which singles out some for assistance and some for sacrifice. But most of the communities in this region lose doubly from such growth center-based programs. They lose once when the growth center gets scarce public assistance instead of them, and again when the subsidized expansion of growth centers drains retail and other economic activities away from an expanding area of nearby communities.

Trying to justify these programs in the name of triage also betrays the concept. As shown by the self-employment nature of the people, this region of small, rural communities is far from being mortally wounded but has the potential to respond to modest assistance. These communities are the very ones which triage concepts say we should concentrate our limited resources. The real reason federal and state business development programs end up abandoning these areas is not because the region lacks potential, but because the progrms are not up to the challenge of delivering modest assistance in the small, dispersed communities which will spark the region's small-scale entrepreneurial base.

Appropriate Business Development Programs

In creating business development programs which will address the needs of communities which should be targeted for assistance, we believe the critical factor is providing appropriate financing and support to the individual entrepreneur. That individually crafted financing will make more of a difference than any proposed institutional remedy for rural development. Therefore, in fashioning a program which will successfully promote new enterprise formations, there are three criteria we think must be remembered:

1. The system of delivering assistance must be able to serve smaller, remote, widely dispersed communities. As mentioned, these are the communities which are often ignored by conventional rural development approaches but which have tremendous potential. Any effective federal program must be designed to reach and support the efforts of the people in these areas.

2. The program will need the capacity to make loans in a wide range of sizes, including very small loans. In these farm-based communities, a successful rural development effort is much more likely to be comprised of a number of micro-enterprises rather than one or two larger enterprises. Many will be home-based enterprises, and most will have financial needs closer to $5000 and $10,000 loans rather than $500,000. The delivery system adopted must have the flexibility and the desire to make these types of loans.

3. Business development programs for these communities should be as locally based as possible. Federal development programs which do not sufficiently involve the efforts of community members or leverage their financial resources run a high risk of failure. Local leadership and local financing are needed and the creation of community development organizations (at the town or county level) may be necessary to assure the requisite local involvement.

Rural Partnership Act of 1989

Because the Senate Agriculture Committee recently passed a rural development bill (S. 1036), we would like to briefly comment on its business creation provisions. A fuller analysis of this proposed legislation is attached, along with a special report by the Center for Rural Affairs on development strategies in rural communities.

The Rural Partnership Act creates a Board to provide lines of credit to a variety of governmental units and private nonprofit development organizations. The lines of credit would have to be matched by the entities receiving them and an individual loan or investment made from the revolving fund would have to be matched by the sponsor of the business. The Act lays out certain eligibility requirements for entities receiving the lines of credit and attempts to assure a geographic disbursement of the funds. While we are enthusiastic about the potential of intermediaries as delivery systems for rural enterprise development, we believe any program must be more carefully targeted in order to provide assistance to the smaller communities which predominate in the Midwest. We fear that the bill's criteria and selection of revolving fund intermediaries will not adequately assure that the farm based counties of the region (the shaded area of

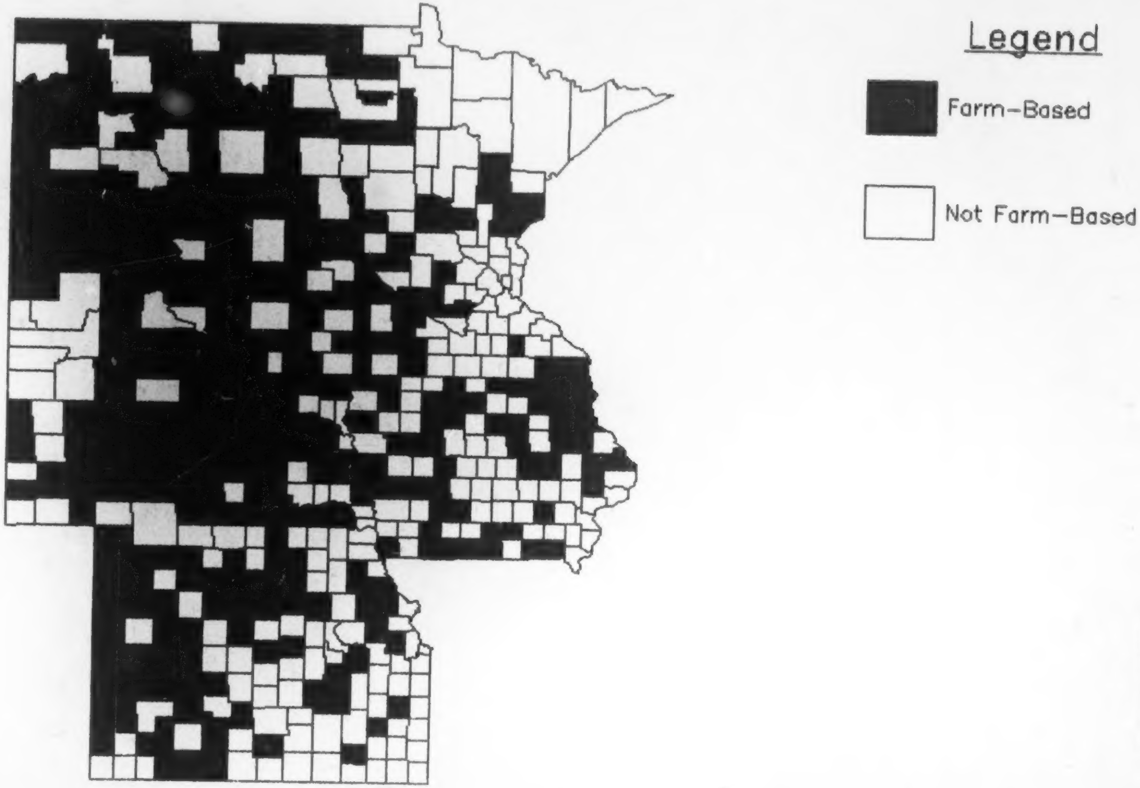
Attachment 1) will be appropriately served. Ignoring this targeting issue means that this promising approach will, like so many other rural development programs, fail to serve and build on the potential of these communities.

We are also concerned that the bill's emphasis on proven experience in development lending may discriminate against new revolving funds which are created to address currently unserved needs. In many cases, existing revolving loan funds have received earlier federal loans and grants and the areas the funds serve have correspondingly benefitted. Targeting to new revolving funds and unserved rural areas would have better spread the benefit of federal assistance under the bill.

Mr. Chairman, thank you again for this opportunity to provide written testimony.

ATTACHMENT 1

Farm-Based Counties
in the Middle Border 1986


Legend
▇ Farm-Based
☐ Not Farm-Based

Center for Rural Affairs
P.O. Box 405, Walthill, Nebraska 68067 **Special Report** **November 1988**

RURAL ECONOMIC DEVELOPMENT:

Agriculture And The Rural Community

Who Benefits From Development: Corporations Or Communities?

Economic development has become a top priority for agricultural communities in the Midwest. The critical choices we make in pursuit of economic development are likely to bring significant changes in our day-to-day lives. The issue is: what kind of changes, and who will benefit from those changes?

This report argues for rural economic development strategies that benefit communities, and not just corporations, and which build on a reformed, sustainable system of agriculture.

Corporate or Community Development?

The corporate approach. The stated objective of the corporate approach to rural economic development is to replace jobs lost by a depressed agricultural economy with jobs in such growth industries as telecommunications, high-tech manufacturing, etc. The basic strategy is to offer incentives for the location of these high-growth businesses in rural areas.

This strategy excludes many, if not most, rural communities. The proponents argue that it would be very inefficient to put our limited resources into agricultural communities which are economically obsolete and too small to offer a skilled labor force, financial resources and facilities on a large enough scale to recruit or develop new industry.

They propose a triage process to decide which communities we should target for development and which we should sacrifice. The recent SRI International report on Nebraska's economy suggests 5,000 as the minimum population size for economic development.(1) Most "regional growth center" and "rural enterprise zone" strategies are examples of this triage approach.

The proponents of triage assume that people in small communities can be retrained and relocated to larger, more urban places, where jobs will be waiting for them as a result of economic development efforts. If a small community is lucky enough to be near an urban center, it can become a "bedroom" community.

The bottom line in terms of the supposed public benefits of this approach is job creation. That's a good selling point in rural areas with relatively high unemployment and underemployment. However, we believe that the primary beneficiaries are not rural communities, but the corporate and financial interests which are able to take advantage of the various incentives offered.

Regional growth centers and rural enterprise zones are not rural economic development strategies: they are development opportunities for corporations seeking to expand from tight urban labor markets to places where they can find a large pool of labor willing to take low-wage, part-time and high-turnover employment.

The community and often the state offer various inducements in the form of tax incentives, grants, low-interest loans, facilities, and job training in exchange for a promise of jobs. The community may very well be expected to provide services and low-cost housing for families living on poverty wages. The issue is not which communities will win and which will lose in this process. Everyone except certain corporate interests loses. Smaller rural communities are abandoned, larger rural communities are exploited, and the public foots the bill.

The community approach. The alternative to the corporate approach to rural economic development is rural community revitalization -- not just a few, select communities, but all communities which are committed to self-development. We strongly disagree that this would be a waste of our limited resources on communities which are economically obsolete, and no longer serve any important function. Rural communities are places where people choose to live and work. That choice is something we should respect. But the importance of rural agricultural communities goes beyond offering a choice of particular lifestyle. These communities serve a number of social and economic functions that are important both regionally and nationally.

Rural communities provide essential support to their farm and ranch families in the form of schools, stores, health care, etc. How will those needs be met if most rural communities seriously decine or fail?

Rural agricultural communities are still strongholds of important American social and economic values. Ownership and self-employment, in both farm and non-farm enterprises, are more widespread than in urban areas. Community activities have a strong family orientation, and there is less division by social and economic class. Are we to abandon important social and economic values along with the communities that have supported them?

We challenge the view that we can't afford to develop these communities. On the contrary, it would be a gross waste of rural resources and an unnecessary burden on urban resources to relocate rural people to urban areas. The costs of retraining, relocation and additional urban housing and facilities would be much more than the costs of revitalizing rural communities.

Finally, we challenge the view that these communities have no opportunities for development. That pessimism reflects the bias that development is something that must be imposed on rural areas from outside -- outside industries, outside investment, outside assistance.

In fact, rural communities do have other options and many resources to build on should they choose to take on the challenge of revitalization. A number of successful community self-development efforts illustrate the potential for revitalization.(2) Some goals and strategies for revitalizing rural agricultural communities are outlined below.

Community Development Goals and Strategies

The Center for Rural Affairs believes that rural communities should be economically, environmentally and socially sustainable. A sustainable rural community plans for a stable rather than "boom-and-bust" economy. Its natural resources are sustained for future generations, not exploited for immediate gains. Its social and political structure includes all sectors of the community and it accepts ethnic and cultural diversity.

Rural communities should have an equitable distribution of wealth and offer economic opportunities for all of its members. There should be broad-based ownership and control of local economic and social resources. Public resources should not be invested for the narrow benefit of a few members of the community, but for the interest of all.

Specific goals and strategies must come from the community itself and should reflect its values, resources and economic circumstances. However, there are a number of broad economic needs and development opportunities that are common to many rural agricultural communities.

Agricultural Strategies. Although agriculture is the economic base for rural communities in this region, most of them could derive much more economic benefit from it. For example, they support sustainable family farming in order to maintain a stable and economically sound farm population. They could support the development of small scale enterprises to manufacture agricultural inputs and add value to locally produced crops. They could devise strategies for replacing imported food with locally produced and processed food. (see "Agriculture: The Foundation of Rural Economic Development" in this report.)

Retaining Dollars. Communities must look for ways to keep more dollars circulating within the community, i.e., ways to plug leaks. Retailers must find creative and cooperative ways to compete with urban shopping malls. Energy conservation could also reduce the outflow of dollars.

New Enterprise Development. New enterprise development offers a viable alternative to the corporate approach of industrial recruitment, a widely discredited but still widely used strategy. Most new jobs in the U.S. come from new or expanding businesses with fewer than 20 employees.(3) There are reasons to believe it can be successful in rural areas. First, rural communities have a strong tradition of self-employment which is an important assset. Second, research in Iowa has found rates of enterprise development to be as high in rural counties as urban ones.(4)

New enterprises can serve a number of economic and social functions. They can provide needed goods, services, or recreational opportunities which currently are being purchased from outside the local area or simply are not being provided. In other words, they can retain dollars within the community. They also can be a means of bringing more dollars into the community through goods or services sold outside the local area. They are source of income for the owner-operator as well as for any employees.

Enterprise development must be carefully scrutinized for impacts it might have on the community. A new enterprise could cause existing businesses to lose trade or even close. Its activities could result in dangerous and expensive environmental pollution. If a new enterprise is owned by outside interests, not only will profits be taken out of the community, but the community will lose some control over its economic future. An enterprise might offer only low-pay, part-time or high turn-over jobs which fail to provide high quality employment to community members. Worker-owned and other kinds of cooperative enterprises need to be considered as alternatives to outside ownership and poor quality employment.

There are no magic formulas for rural economic development. Each community must find the numerous, small ways it can improve its economy and work towards it long-term goals. The following articles in this section of the report explore the planning, financial and technical assistance needs of rural communities.

In future issues of the Center for Rural Affairs newsletter, we will be examining current and proposed economic development strategies of Nebraska and other agricultural states in this region, as well as federal rural economic development programs and proposals.

The Community Planning Process

Effective community economic development is based on a democratic process that involves people in making key decisions about their community's future. The process will result in economies that are different from those that originally shaped the communities, but if sustainable, small-scale development occurs, they can remain viable places for people to live and work. The following points are integral to a small rural community in its planning process:

1. **Broad-based Community Involvement.** The process should include all factions and groups--especially those traditionally unrepresented in economic development, such as young people. Involving only traditional economic development groups, such as Chambers of Commerce and town councils, will limit what the community can accomplish in the long run. Who else to include? For starters, organizations such as churches, school boards, farm groups, cooperatives, and women's groups, and individuals from all sectors including senior citizens, high school students, farmers, entrepreneurs, and local business people.

2. **Structure of the Organization.**
The best way to establish a lasting economic planning organization is to form an umbrella group composed of individuals and a variety of community groups who are committed to leadership. It's also important to set up a structure for continued staffing.

3. **Long-term Goals.**
A community needs to state its values in order to set long-term goals. Values questions include: What are the good things about living here? Which of these does it want to maintain? What things need to be improved? How much change is it willing to accept? The long-term goals should indicate what kind of community it wants to be in the future: a small, farming town, a regional manufacturing center, a bedroom community, etc. Quality of life goals should also be included--ones that may not be directly associated with economic viability but are nonetheless basic, such as maintaining a clean and healthful environment, and making the community a just and equitable place to live.

4. **Development Objectives.**
The community needs to identify the important ways its economy could be improved and develop a priority list of objectives. For example, are the main problems the loss of family farms, not enough dollars flowing into the community, too much of the retail trade going outside the community, few opportunities for educated young people, or what?

An analysis of the local economy, to describe the flow of dollars within and out of the community, can help to identify major problems and define objectives to address them.

5. **Resource Inventory.**
Communities need to identify local resources, including labor, raw materials, management talent, entrepreneurship, existing support businesses, infrastructure, etc. that could be used in meeting its development objectives. Infrastructure includes both "hard" or physical (e.g., roads, water supply systems, buildings) and "soft" (e.g., health services.) Often small communities have existing infrastructure that can be converted to another use (like an unused school that could house several small businesses.) Communities need to promote any excess capacity in infrastructure. In addition, it's often easier for a small town to implement a recycling process, for example, than a larger town because of the smaller scale involved.

The resource inventory should pinpoint available sources of capital and technology to achieve its economic development objectives. The community also needs to be aware of outside sources of capital and technical assistance which could be used (see the sections on financing and technical assistance in this article).

6. **Action Plan.**
The community needs to set up an economic development action plan based on its objectives, available resources and long-term goals. What does the community want to have happen, when, how and by whom? The plan should identify projects with the best potential of meeting the community's objectives.

People in the planning process should brainstorm ideas for meeting their priority objectives, such as establishing new businesses, then ask if the ideas fit the values and goals of the community and the available resources. For example, implementing a municipal energy conservation program could be a strategy to fulfill the objective of retaining dollars in the local economy and providing employment and training for some of its young people.

Specific proposals need to be tested for feasibility. For example, a community survey could determine spending patterns and measure market support for new businesses. The technical and financial needs of the project should be determined and the resources for meeting those needs identified. The action plan should have a timetable, and identify who will do what. It should include a process for evaluating and revising the plan as needed.

Technical Assistance in Rural Enterprise Development

What are the special assistance needs of enterprises in rural communities? A study of the 20,000 new businesses that formed between 1980 and 1986 in Iowa found that less than 10% asked for or received technical assistance.(3) However, many of the problems identified by the respondents, such as maintaining adequate cash flows, management, and marketing could be addressed by assistance programs.

State programs are the primary source of technical assistance, but federal and local programs along with some private organizations also offer assistance. In fact, most states in the Midwest region have business assistance policies that are increasingly aimed at helping small businesses. Examples are financial and business planning services; integrated data bases to inform businesses of related sources of funding; and marketing assistance and product promotion, such as expanding outlets for products processed or manufactured in the state.

For example, the Texas Department of Agriculture (TDA) actively helps producers to diversify and add value to their agricultural products. Upon request from producers, TDA conducts marketing surveys, performs feasibility studies, and helps find financing for projects.

Existing Programs. How well do existing programs meet the needs of businesses in small rural communities? In general, failures occur for the following reasons:

- rural areas not targeted for assistance;
- inadequate levels of funding--only a small percent of businesses or communities benefit;
- limited accessibility--areas that are geographically distant from the source of services, and areas that fall outside of the preferred economic growth corridors in the state may not receive adequate services;
- lack of competency of program staff.

Local Options. How can rural communities ensure that local businesses receive the help they need? Strategies include:

- making better use of existing government programs--demanding that they meet the needs of small rural communities;
- identifying changes needed in state and federal policy to promote enterprise development in rural areas;
- identifying and tapping local expertise--exploring the concept of a community setting up its own technical assistance program, using the services of local lawyers, accountants, marketing personnel, and business owners.

Financing Rural Community Development

While in theory the sources for funding rural community development are numerous, practically speaking most rural communities have limited sources of development funding. However, when communities rely on outside funding sources such as government grants, often the "tail wags the dog." That is, the outside funding source determines the course of economic development in the community. Often the result is development that is economically and socially destructive to communities. Communities can minimize this problem by using locally generated funds to leverage any needed outside investment.

In most cases rural communities will find that funding development projects requires coordinating the investments of several different sources of funds. There are generally five sources of funds: 1) individuals; 2) government units; 3) charitable foundations; 4) lending institutions; and 5) corporations and businesses.

Proposals to fund development projects must be evaluated to make sure that they advance long-term community goals and provide for the best use of locally generated funds. Funding for development can come in three forms: grants and gifts, loans, and equity investments.

While strings may be attached to grants and gifts (for example, a requirement for a high jobs to investment ratio), in general their purpose is community betterment.

Loans and equity investments come with a wide variety of expectations on the part of their makers. Loan interest rates vary, depending on loan source and terms. For instance, a commercial bank may accept a normal rate of return on a risky project if another funding source is willing to absorb the majority of risk through a subordinated loan or an equity investment. Likewise, an initial equity investment to cover startup expenses may attract for-profit loans or investments. Individuals or government units may accept below normal interest rates on deposits with commercial lenders when those lenders in turn make loans to development projects at similarly lower interest rates. Or government units may guarantee all or part of a loan where a lower than normal rate of interest is charged for a development project.

The combinations of funding sources are numerous, and with creative approaches many rural communities can successfully pursue their self-development goals without mortgaging their futures to outside interests.

AGRICULTURE:

A Foundation For Rural Economic Development

Agricultural Reform and Rural Economic Development

Common sense tells us that whatever task we undertake, we should make the best use of available resources. It follows then that for the thousands of rural communities that blanket the Great Plains and western Corn Belt, and cluster in other regions as well, agriculture should play an extremely important role in the task of revitalizing their economies.

It's surprising, therefore, that the words "agriculture" and "rural economic development" are rarely spoken in the same breath. For most rural economic development analysts "agriculture" is an unmentionable word: the industry is considered too weak and too insignificant to contribute to economic growth. For others, the support of production agriculture is the only solution to rural economic problems: solve the problems of farmers and everybody else's problems will go away.

Neither faction addresses the fact that agriculture has been a major factor in rural community decline for decades. Long-term changes in agricultural structure and practices have depopulated rural communities by replacing labor with capital, taken trade away from local businesses, and have degraded and polluted the environment. Because these two factions fail to see the fundamental problems in agriculture, they fail to see agricultural reform as a solution to the decline of rural communities.

We believe that agriculture can be the foundation for rural economic development in this region if it is reformed to be more sustainable and more equitable.

The articles that follow disuss the relationship between agriculture and rural community welfare, sustainable family farming as the rural economic base, and strategies for building on that base.

The Role of Agriculture in the Rural Economy

Many analysts point out that agriculture no longer dominates the rural economy: less than 30 percent of rural counties in the U.S. are classified as "farm dependent" by the U.S.D.A. Consequently, they say that agricultural development, even if feasible, would not have a major impact on the overall rural economy.

These analysts seriously underestimate the economic importance of agriculture to rural communities. First of all, they have defined "rural" very broadly to include all nonmetropolitan counties in the U.S., which may have cities of up to 50,000 people. Only a third of these counties are truly rural by the U.S. Census Bureau criteria of having no town of 2500 or more. Secondly, "farm dependent" has been defined very narrowly, as at least 20 percent of county personal income generated by farming or ranching. Net income from farming and ranching is a poor indicator of economic importance.

The "farm dependent" statistics really don't give a true picture of agricultural dollars circulating in a community. Farm operations require inputs and services from main-street businesses and local governments. In agricultural communities, the incomes of people employed at banks, schools, hardware stores, feed and fertilizer dealers, cafes, etc. are dependent on both the farm population and the farm operations. Yet many of the counties in which farming or ranching is the only significant activity that generates wealth, i.e., little or no manufacturing, tourism, etc., are not considered to be "farm dependent". There is clearly something wrong with a definition of farm dependence that excludes 36 percent of Nebraska's nonmetropolitan counties.

Some policy makers acknowledge that nonagricultural rural development strategies face a real challenge in this region. Yet they stop short of proposing agricultural-based strategies, and some suggest that our only option is to try to manage the inevitable regional decline.

One reason policy makers are so reluctant to look to agriculture for rural economic development opportunities is their belief that agriculture is a weak and declining industry. Since there is little possibility for expanding markets, they see no opportunities for overall growth in agriculture and increases in employment. In fact, they predict declining employment on the grounds that further farm consolidation will be necessary in order for us to remain competitive.

Not everyone, of course, buys this gloomy view about the future of agriculture. There are many who claim that agriculture can recover given the right kind of farm program, and that a strong farm economy is all that rural communities really need. Those who espouse this view, have forgotten that rural communities have declined even under periods of strong agricultural growth; why should we believe that strengthening the farm economy now will reverse the long history of decline?

Farm Structure and Rural Community Welfare

Although rural communities have been hit hard by the recent farm crisis, this is not the fundamental reason for rural community decline. A major problem that rural communities face, and have suffered under for decades, is the ongoing change in the structure of farming. The trend has been a change from small-scale, diversified family-owned and operated farms, toward large-scale, capital-intensive, specialized operations, where ownership, management and labor are separated.

There is a substantial body of research that documents how this change in farm structure has lead to rural community decline.(5) The most obvious impact has come from the decrease in the number of farms and farm residents. Between 1950 and 1980 the number of U.S. farms was cut in half, while farm size doubled and farm residents declined by two-thirds.

It is the number of farms and the size of the farm population, not the number of acres farmed, that affects the level of local economic activity derived from farming. Consolidated farms bring less business to the local community than the total of the original farms. They have less demand for machinery parts, fuel and services. There may be fewer buildings to construct or maintain. Very large-scale operations are more likely to bypass local retailers to buy in bulk from large, urban businesses.

When one farm operation is taken over by another, the community is very likely to lose a family. Losing farm people means losing trade for local businesses and demand for local services. This reduces profits, employment opportunities, and eventually, the number of main street businesses. More people are forced to leave the community to seek employment elsewhere. Farm families who need off-farm income will find few opportunities and may be forced to sell out to a larger operation, accelerating the community decline cycle.

A less obvious impact of the changes in farm structure is a growing economic disparity among community members. Numerous studies have found that large-scale operations with hired management and labor tend to create a wealthy, land-owning elite while laborers, small-scale farm operators and other small business operators struggle on relatively low incomes. This trend threatens the traditional, egalitarian characteristic of rural communities, as well as erodes its social and economic structure.

Clearly, an important rural economic development strategy then is to reverse the trend of farm consolidation and provide more opportunities for new and rebuilding farm operations. We believe that sustainable, family farm agriculture provides the best opportunity.

Sustainable Farming For Sustainable Communities

Agricultural communities, like mining and lumber communities, depend on and reflect the resource base surrounding them. If you arrived blindfolded in a farm town and took a walk down mainstreet, you'd be able to identify the agricultural base within seconds. The grain elevators and implement dealers give it away. The coming and going of pickups and farmers, identifiable by their clothing, caps and holstered pliers, confirms the choice.

These towns reflect their resource base so closely because they owe their existence to that base. An economic development strategy that denies that relationship is a form of self-denial, and from a practical standpoint, the successes of such a strategy will be limited.

For the typical midwestern agricultural community, **a sustainable policy of rural economic development must be based on an equally sustainable policy for agricultural development.** If agricultural development is not sustainable over the long haul, then neither is the future of those agriculturally dependent communities. This is not to say, that the community shouldn't seek to diversify its economy--it should--but in these communities our wagon is hitched to agriculture, and positive changes in agriculture will have a much more positive impact on the larger community than most flash-in-the-pan schemes that are not locally rooted.

So what are these sustainable agricultural policies and how do they affect our communities? There is no one giant "sustainable" solution with which we can instantly rebuild our communities' economies. Instead, these sustainable agriculture practices are more like bricks that can only be laid down carefully one after another to build a new structure. Here's some of the bricks:

Diversity vs. Specialization

In nature, the more sustainable communities are very diverse. Diversification or "not putting all of your eggs in one basket" traditionally was one of the basic strategies of farmers for reducing risk, and could be used to advantage in providing a more integrated farm operation. Although many have abandoned diversification in recent years, the strategy is still appropriate and can be implemented in a variety of ways in farming. For example, crop rotations that include sod producing plants and legumes result in a large number of beneficial results. Within a particular field interseeding, interplanting, use of field windbreaks, terraces, or narrow strip cropping results in increased diversity.

Livestock is an important component of diversification. They can increase the environmental sustainabiltiy of agriculture by making it feasible to include grasses and legumes in a crop rotation. They help break up the insect and weed cycles, replenish nitrogen, and reduce soil erosion. Ruminants make it possible to utilize forage grown in a rotation while at the same time they play an important gleaning and salvaging role which makes better use of existing farm resources. Hog production has always been a way to add value to feed grains grown on a part of the farm.

In addition, the number of market options increases when livestock are a part of the farm. Usually options are more limited when there is a high degree of specialization and large capital ivnestments are made. Highly specialized livestock confinement facilties have displaced wide dispersion of livestock on the land. This has resulted in the substitution of purchased inputs to replace the beneficial relationships that result from integrating livestock, forage, crop and pasture production.

Low Input vs. High Input

Family farms and rural communities are almost literally being liquidated to pay for high input practices and technologies. Most of these high input practices assumed that the monetary costs of implementing these technologies would be offset by increased production along with stable prices realized from a growing export market. The "farm crisis" revealed the economic hazards of high input technologies. In addition, environmental hazards represent additional costs of using agricultural chemicals. Both of the economic and environmental costs have increased the attractiveness of more sustainable, low input farming practices.

Besides being expensive and hazardous to the environment these high input technologies are constantly being changed and improved. One technology complements another, making it very difficult for small and moderate sized farms to stay on the "technology treadmill". Thus the high input technologies have become a "voluntary" means of moving farm families off the farm and in many cases eventually out of the community.

Low input farming practices are less dependent on off-farm purchased products and more dependent on making better use of existing farm resources. These include using soil building practices and the use of biological pest and weed control. This does mean that suppliers of agricultural chemicals will have reduced sales. However, farm families will continue to buy other products and services with their disposable income. If these products and services are locally owned the dollars will be circulated to a greater extent within the community rather than being funneled out to energy or chemical companies.

Stewardship vs. Exploitation

Bountiful resource endowments of rich soil and pure water enabled farmers to use intensive farming practices to increase their production. This increase in productivity was at the expense of cashing in on natural deposits of organic matter, natural fertility, and soil structure along with the pollution of surface and ground water. Some argued that these resource endowments could be exploited because their deterioration could be masked by the purchase of off farm inputs. Experience has proved this wrong.

Farmers as well as residents of rural communities are now beginning to recognize the need for more sustainable farming practices. They understand that when soil erodes it carries along to rivers and streams the various chemicals that have been applied to the land. These chemicals also percolate into the ground water, polluting the drinking water of many rural communities' farmsteads.

The farming systems that exist within the boundaries of the fences are extremely complex, as are the interrelationships between the farming systems and the larger community economic systems. As a result, big solutions to farm and community problems usually fail. A more sustainable approach is to redefine each problem so that smaller, sustainable actions can be taken.

Family Farms: Suited for Sustainable Development

Sustainable agriculture is not a "horse-and-buggy" way of farming. It is based on a technological revolution that may prove to be as important as the mechanization and chemical revolutions of a few decades ago.

Its technologies are "know-how" intensive and resource-conserving, uniquely blending practical on-farm experiences and sensitivity with laboratory research and materials. Making the new technologies work will take a blend of individual entrepreneurialism with a willingness to experiment with unproven ideas and techniques. Making sustainable practices work also takes a long-term commitment.

These are precisely the advantages of smaller family farms. The economic and biological dynamism of smaller family farms, especially diversified crop and livestock farms, makes them leading candidates for adopting sustainable innovations. The fact is, they had begun adopting "sustainable" methods long before the term became fashionable. By contrast, large-scale industrial farming units lack both the farm-specific biological sensitivity and the long-term commitment needed to invest in sustainable agriculture practices.

From the financial perspective, family farm units are traditionally lean and flexible. Contrary to popular impressions of the current farm debt crisis, large-scale units are more likely to be experiencing financial stress than smaller units. Financially brittle larger units tend also to be more locked into farm programs requiring the comparative security of predictable program prices. Finally, these large units are locked into the mindset that capital is the leading component in agriculture development. By contrast, most sustainable agriculture technologies are less likely to depend on capital than on the individual know-how and farm-specific sensitivity possessed by by family farms.

In short, large-scale, capital-intensive, specialized, program-dependent, shareholder-owned agriculture units are likely to lack the flexibility needed to take advantage of sustainable agriculture technologies. By contrast, appropriately scaled, know-how intensive, diversified, owner-operations have the flexibility and long-range perspectives to take advantage of the emerging sustainable technologies.

Building On Agriculture

Production is only one part of the agriculture industry. Most of the wealth generated by agriculture is in inputs and value-added operations, not in farming and ranching, and most of those enterprises are based in urban or metropolitan areas. Many analysts have noted that this agricultural region is like a Third World country, exporting its raw commodities to be processed in the industrialized upper midwest or east, and importing the finished products back at much higher prices.

Value-Added

One agricultural-based strategy is to produce crops for high-value local or regional food processing, e.g, potatoes, onions and tomatoes. One of the problems with this type of production is that it is often on a contractual basis that may limit the flexibility of the producer to make the kinds of decisions necessary for maintaining a sound and sustainable operation.

The manufacture of ethanol and biodegradable plastics from corn are also fairly common proposals. By expanding the market for corn, this strategy is likely to increase the abusive practice of high-input, continuous corn, rather than encouraging diversification and sustainable practices. We need to identify and develop value-added operations for crops that can be grown in rotation with corn, such as alfalfa and other more sustainable crops.

One issue that is rarely addressed by value-added proposals is: Who benefits from the value added by a processing operation? Does it mean higher prices or more stable markets for producers? Does it provide high quality, long-term employment for local people? Do the profits stay in the local area? Does it enhance the local revenue base enough to offset any incentives given to the developers? Does it increase the opportunities for family-scale farming? Are the farming and processing operations environmentally sustainable? Value-added enterprises can play an effective role in rural economic development if they are locally owned and operated and on a scale that is appropriate for rural communities. There are a number of small-scale value-adding enterprises that could be adopted both on and off the farm: grading, milling, wool products, cheese manufacture etc. Value also can be added by producing a higher quality product for a specialty market, e.g., lean beef, organic grains, super-clean wheat, etc.

Farm Inputs

Farm inputs are another component of the agriculture industry that operates primarily outside the rural community. There is considerable opportunity for small-scale production of machinery parts, fertilizers, etc. that can be marketed in the local region. As with value added enterprises, it's important that the profits stay within the community and that the scale of operation is appropriate for the rural area.

Local Food System

We can also look to the local food system for economic development opportunities. The agricultural heartland may try to feed the world, but it does not feed itself. More local food processing, as discussed above, should put more local foods on the grocery shelves, but local fresh produce also is a rarity. In 1983 an Iowa task force found that 80 percent of the fruits and vegetables consumed in Iowa were imported from other states. In the 1930s, Iowa was the fifth largest producer of fruits and vegetables in the country. Recapturing even a small share of that food market could result in significant agricultural development.

There are many other possibilities for agricultural-based enterprises linked to the local food system: dairy and cheese, "free-range" poultry, organic and other specialty grains and meats. Consumers as well as producers could benefit from higher quality and lower prices that local production would make possible.

Value-added processing and consumer-ready food production will mean diversification away from high levels of dependence on cash-grain export crops. However, if farm operations switch from one highly specialized production system to another, little will be gained in terms of reducing vulnerability and implementing more environmentally sound practices.

Whatever agricultural based economic development strategies we pursue, we must always ask how it will impact the structure and operations of local farms and ranches. Otherwise we will risk undermining the sustainable family-farm system which is so important to the vitality of rural agricultural communities.

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A Small Farm
ADVOCATE

A newsletter surveying government policies affecting family size farms.

Rural Partnership Act of 1989

Senator Patrick Leahy (D.Vt) and 22 cosponsors of both parties introduced the "Rural Partership Act of 1989" (S.1036) on May 18. Leahy, the chair of the Senate Ag Committee, said in introducing the bill that rural America faces a critical time because of continuing economic decline and the bill was a broad based attempt to promote rural economic development. The Senator, who had spent more than a year developing the support for a major rural development effort, hopes to have full Senate consideration of the bill by late June. Reportedly, funding has been set aside for the bill's efforts in fiscal year 1990, so passage is being sought quickly to use that funding. In the House, the timetable for rural development legislation may be somewhat different, but Rep. Glenn English (D.Ok), the House Ag Credit Subcommittee Chair, began a series of hearings on rural development in early June.

Revolving Loan Funds

The most ambitious portion of the bill would create the Rural Partnership Investment Board to provide lines of credit (actually interest free revocable grants) to a variety of governmental units and private nonprofit development organizations. The Board is to consist of the Administrators of the Rural Electrification Administration, FmHA, the Cooperative Extension Service, plus two other members, one from each major political party, who have rural development expertise. The latter two members are to be appointed by the President and confirmed by the Senate. The Board is to be in existence for five years from the bill's passage. The units of government eligible for federal funds would vary from state agencies to township boards. The private nonprofits would primarily be community development corporation-like organizations. The entities receiving the lines of credit would use the federal funds in revolving loan funds to finance business development or expansion in rural areas (nonmetropolitan areas with towns no larger than 20,000 in population). The business development financing from the loan funds could be in the form of loans, loan guarantees or investments.

The lines of credit would have to be matched dollar for dollar by the entities receiving them except that only a 50% match would be accepted where the average per capita income in the counties to be served was less than 70% of the national average per capita income. The matching funds could be in the form of cash or lines of credit from banks, savings and loan associations, insurance companies, local or state governments or private philanthrophic foundations. As an alternative, funding commitments from banks, savings and loans or community development credit unions to participate in development lending or investing in amounts at least equal to the federal funds provided could serve as the required matches.

In addition to the above fund match, each individual loan or investment made from the revolving funds would again have to be matched dollar for dollar in the form of commercial lender participation in individual business development loans. That is, at least 50% of a financing package for a business project would have to come from a commercial lender or community development credit union. Where state governments received the federal funds, the lines of credit could be as large as $1,250,000. Where other units of government or private nonprofits were involved, the lines of credit could not exceed $750,000.

In addition to the matching fund requirements, the Act spells out the following eligiblity requirement:

1) demonstrated or potential capacity to make sound business, lending and investment decisions and to provide business counseling and technical assistance;

2) demonstrated capacity to increase the availability of credit in rural areas to promote the creation or expansion of viable businesses in rural areas;

3) identification of proposed service areas which are to have similar geographic, social, economic or market characteristics; and

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4) proof that the median household income in the area to be served was less than the applicable statewide nonmetropolitan median household income except that state government agecies would not have to show such proof as they would have to agree to serve all rural areas of states.

It is expected that demand for the lines of credit will exceed the $100 million authorized for each of Fiscal Years 1990 through 1992. The Act therefore establishes the following funding criteria or preferences for funding revolving loan funds:

1) experience in serving local credit or equity needs and in making sound business and investment decisions or alternatively provable ability to do these things;

2) composition of the entities' boards of directors with preference for board members with rural development, government or commercial lending experience;

3) ability to more than match the federal dollars provided in the lines of credit;

4) showing cost effective job creation or retention and new business creation or business expansion;

5) ability and willingness to provide continuing technical and management assistance, training, financial and business guidance;

6) showing that lending and investing activities planned are consistent with state, county or local long-term economic growth and community development goals; and

7) presentation of applications containing comprehensive investment strategies, developed in consultation with the appropriate level(s) of government.

In order to make sure that the lines of credit are widely available geographically, the Act requires that the federal funds be distributed in at least 45 states and, if practical, that funds going to each state be not less than $750,000. There would be a $10 million total limit on lines of credit to entities in any one state. A loan made from a revolving loan fund to any business may not exceed $500,000 in a calendar year. The loans are to be made to "local businesses" and in order to be eligible for revolving loans the businesses must employ less than 100 people. An approved line of credit might be fully funded in the fiscal year in which it was funded, or it might be partially funded in each of the fiscal years for which appropriations are authorized. Although the lines of credit are to become the property of the revolving loan funds when the Board terminates (thereby making them grants), the federal funds may be taken back if their recipients are no longer promoting business development in a manner consistent with the bill.

All in all the bill's reliance on revolving loan funds as intermediaries for federal dollars and its matching requirements ensure that the federal money will leverage the use of private and other public dollars. And with the revolving funds, the dollars can be reinvested in rural development as they are paid back to the revolving funds. The assistance proposed could have been better protected from the kind of "smoke stack chasing" that all too often passes as rural development. The funds could also have been better targeted to make sure that at least a proportionate share of the funds would not be used for "factory chasing" and go to smaller communities such as those found in much of the rural midwest. Rural counties in these states often have the most pressing economic development needs but are frequently ignored in state and regional development planning. The bill's emphasis on proven experience in development lending is understandable but it may tend to discriminate against new revolving funds which get created to address currently unserved needs. In many cases these existing revolving loan funds have received earlier federal loans and grants and the areas the funds serve have correspondingly benefitted. Targeting to new revolving funds and unserved rural areas would have better spread the benefit of federal assistance.

New Role for REA

The Rural Electrification Administration (REA) was created as a means to advance one type of economic development over 50 years ago so it is perhaps appropriate that the bill would give the REA new development authority. The bill would require the creation of a new position at REA, Assistant Administrator for Economic Development. In addition, the REA would establish a technical assistance unit to provide advice and guidance to REA borrowers (electric and telephone cooperatives) concerning community and economic development activities which would be permitted under the Act. REA borrowers would be allowed to defer some repayments on earlier loans from the government when such deferred payments were used to make investments in community and economic development projects. A business incubation fund would also be created in REA to provide grants and low interest loans to electric and telephone cooperatives which estalished business incubators in rural areas. The incubators are to provide low cost, shared premises, support staff, computers, telecommunication equipment, office equipment, janitorial services, utilities and other overhead to starting businesses. The REA would be authorized to make community water and waste disposal services loans by the Act. These loans would be limited to the lesser of $40 million per year or 10% of the total amount of insured loans authorized during a fiscal year for rural electrification and telephone purposes.

In an effort to improve rural educational instruction in the areas of mathematics, the sciences, computer technology, foreign languages, health sciences and other areas of study, the Rural Star Schools Educational Opportunities Program acting through the REA would provide grants to grade, high and vocational schools to encourage and improve the use of telecommunications and computer instructional programs.

The Rural Medical Link Telecommunications Program would give the REA the authority to make grants and expedited loans to hospitals, primary care centers and physicians to improve telecommunications and related activities between and among rural hospitals, physicians, teaching hospitals, rural primary care centers and facilities, and major hospitals. Another similar grant program, the Rural Business Link Telecommunication Program, would also operate through the REA. The program would provide grants to businesses to help in the establishment of shared business communication or computer centers. The purpose would be the improvement of the transmission of marketing, product ordering, inventory management, or other related business data in and to rural areas.

Revolving loan funds and the matching requirements ensure that federal funds will leverage other investments.

If approved, the bill would allow the REA and its cooperative borrowers to participate in rural economic development in a number of important new ways. If they are able to meet this challenge, they are positioned to have beneficial effects on development in most of rural America.

Extension Service and Others

The bill would provide 60% of the salaries for state or county economic development specialists employed by the Extension Service. The specialists would assist individuals in creating new business, or assisting existing businesses in general or specifically regarding advanced telecommunication, computer technologies, technical and management assistance, business and financial planning and to assist community leaders in community economic analysis and strategic planning.

The bill would require that the Secretary of Agriculture establish a program to study economically distressed counties in a variety of states to evaluate the need of such counties for rural development assistance, the nature of the assistance needed, and the availability of such assistance. The Secretary would also have to establish a program to provide information to local rural communities and counties concerning rural development matters and the availability of federal rural development assistance. This program would be operated in conjunction with the National Information Center Clearinghouse of the National Agricultural Library. The Act would also create a National Rural Information Center Clearinghouse to collect and distribute information on the rural development programs at all levels of government and of private nonprofit organizations. In addition the Secretary would have to present a report to the ag committees of Congress on the coordination of rural development acitivies with USDA and on the feasibility of performing USDA's data processing in rural areas.

The bill would authorize the appropriation of $7.5 million per fiscal year for grants through USDA to states, counties, towns, regional organizations and other public and private nonprofit bodies to promote rural business formation and job creation. The grants could be used to analyze rural business opportuntiies based on local rural economic and human resources; to identify, train and provide technical assistance to rural entrepreneurs and managers; to establish business support centers and assist in the creation of new rural businesses and the development of methods of financing local businesses; and for regional, community and local economic development planning and coordination. Similar grants totaling $5 million per year would be made to promote the use of advanced telecommunications, related advanced technologies and computers in rural areas.

The Act would authorize the Secretary to make 2 year "gap" loans of not more than $50,000 to towns of not more than 20,000 population to correct emergency conditions or situations needing urgent attention involving water and sewer facilities. The loans would give the towns the time needed to obtain longer term FmHA financing. Appropriations of $2.5 million in fiscal year 1990 and $5 million in subsequent fiscal years would be authorized for the gap loans. FmHA's water and waste facility grant appropriation would be increased from $154.9 million to $204.9 million beginning in fiscal year 1990. The Act would establish a new Emergency Community Water Assistance Grant Program to assist the residents of rural areas and small communities to secure adequate supplies of safe water when there had been sudden and significant decline in the quantity or quality of water available or when there was an acute shortage of quality water. The $25 million authorized for appropriation would be available as grants to communities with populations of 3,000 or less where the median household income was less than the state's median household income. Sudden and significant decline grants could not exceed $500,000 and acute shortage grants would not exceed $75,000.

The Bank for Cooperatives of the Farm Credit System could also become involved in water and sewer lending under the Act. They would be authorized to make water and sewer loans to communities eligible for those types of assistance through FmHA.<>